

Vendor Profile

A Publication from INPUT's Outsourcing Information Systems Programme – Europe

1996

Andersen Consulting Achieves Major Growth in Business Operations

Andersen Consulting has achieved only limited success in the IT outsourcing market in Europe and in recent years has focused its energies on becoming one of the market leaders in the emerging business operations sector.

The organisation's first business operations contract was signed with BP Exploration in 1990 and involved the supply of day-to-day accounting services.

Since then, Andersen Consulting has found the development of the business operations market proceeding very slowly and cautiously. Between 1990 and 1995 the organisation gradually extended its presence in accounting operations for North Sea oil companies but was largely unable to extend the scope of its business operations services beyond this highly specialised field.

However, in the last year, Andersen Consulting has begun to make significant new breakthroughs in developing its market presence in business operations. The organisation's major recent business operations contracts are listed in Exhibit 1.

In particular, Andersen Consulting has:

- Consolidated its presence in oil company accounting operations
- Developed an accounting operations presence outside the oil sector
- Announced a joint venture offering logistics services to utilities.

In addition, Andersen Consulting is targeting Private Finance Initiative (PFI) contracts in U.K. central government.

Andersen Consulting: Recent Business Operations Contracts

Client	Function	Date signed	Number of personnel transferred	Contract Value (\$m)
Sears Plc	IT and Finance functions	1/96	900	540
Thames Water	Logistics- purchasing & supply	9/95	130	n/a
BP Exploration (Norway)	Accounting services	95	25	n/a
Conoco	Accounting services	8/95	120	n/a
BP Exploration (UK)	Accounting services	8/95	Renewal of existing contract	60
Fiat New Holland	Accounting services	95	n/a	n/a

Source: INPUT

Consolidated Its Oil Company Accounting Activities

Andersen Consulting's contract for accounting services signed with BP Exploration (UK) in 1990 was the organisation's first major business operations contract. Accordingly, it was very important for Andersen Consulting that this contract, and this stream of business, should be a success.

The business activities performed by Andersen Consulting within the contract included:

- Processing and paying approximately 12,000 invoices per month
- Management of bank accounts
- Production of monthly and quarterly management reports and identification of variances
- Production of statutory accounts.

However these activities were all handled in a manner specific to oil companies operating in the North Sea. Between 1990 and 1994, Andersen Consulting extended its activity in this niche, winning contracts with three other oil companies operating within the North Sea regime, including Sun Oil and ASCo.

In 1995, Andersen Consulting consolidated its position in this activity by signing an additional client, Conoco, and more importantly by the renewal of its original contract with BP Exploration (UK). This contract was renewed following a benchmarking survey of BP Exploration's accounting services. Andersen Consulting estimates that BP Exploration achieved a 30% cost reduction within its accounting services during the course of the initial 5-year contract.

In addition, Andersen Consulting has now signed additional business operations contracts for accounting services with BP Exploration in Norway and BP in the U.S. In the U.S., the agreement covers five BP businesses: BP Exploration, BP Oil, BP

Chemicals, Air BP and BP Marine. This contract is estimated to be worth \$120 million over 10 years.

As a result, Andersen Consulting has proved that outsourcing accounting services is a viable option and has established itself as market leader in the specialised niche of oil company accounting.

Developed A More Extensive Accounting Operations Presence

Andersen Consulting has also formed a joint venture with FIAT's New Holland agricultural machinery group to manage logistics and distribution of spare parts for agricultural and construction equipment.

New Holland has an 80% stake in the joint venture and Andersen Consulting a 20% shareholding. The joint venture employs 800 staff and operates from six centres in Europe: in Italy, the UK, Belgium, France, Spain and Germany. The organisation has a turnover of approximately \$400m.

The joint venture is designed to utilise Andersen Consulting's expertise in process reengineering and IT and New Holland's operational capability in warehousing and distribution.

In the last year, Andersen Consulting has extended this involvement with New Holland to include accounting services.

This is an important breakthrough for Andersen Consulting since it gives the organisation a reference site for accounting services within the manufacturing sector. This is a major opportunity for Andersen Consulting since the market potential for accounting services in the wider European manufacturing sector far exceeds that within the European oil sector.

In addition, the manufacturing sector in Europe has so far shown the highest propensity of any sector to outsource its IT services, organisations often regarding these as non-core activities. Similarly the European manufacturing sector is increasingly likely to regard accounting services as non-core over the next few years.

In addition, Andersen Consulting has made a breakthrough in the retail sector. The organisation has signed an outsourcing contract with Sears Plc within which all of Sears IT and finance operations have been transferred to Andersen Consulting.

This contract involved the transfer of 900 staff, approximately doubling the staffing of Andersen Consulting's Business Process Management division in the U.K.

The Sears group consists of a diverse range of manufacturing and retailing subsidiaries operating in different markets. Previously each subsidiary had its own unique accounting, logistics and IT functions. These functions have now been combined across companies into single common support functions serving all companies remaining within the Sears group. By combining these common support functions, Sears expects to achieve annual savings in excess of \$30m by the year 2000.

Consequently, Andersen Consulting now manages accounting services for oil companies, and for organisations in the manufacturing and retail sectors.

Announced A Joint Venture Offering Logistics Services To Utilities

In September 1995, Andersen Consulting announced a joint venture with Thames Water. The new company formed, Connect 2020, will initially provide supply chain

management services to Thames Water. Andersen Consulting and Thames Water will share any profits that arise out of improved operational efficiencies.

The rationale for the joint venture is that Andersen Consulting has the reengineering skills to improve the processes within Thames Water's existing supply chain management procedures. On the other hand, Thames Water will bring personnel with detailed operational knowledge of supply chain management within the utilities sector.

One hundred and thirty personnel have transferred from Thames Water to the joint venture company.

In future, Connect 2020 intends to target the operation of purchasing and supply services more widely within the utilities sector. This will involve targeting, for example, the electricity and gas utilities in addition to other water companies.

Targeting PFI Contracts

Andersen Consulting has also won the first major PFI project announced in the U.K.

Within this contract, Andersen Consulting has committed to develop the new National Insurance Recording System (NIRS 2) by April 1997. In line with the PFI philosophy, Andersen Consulting will receive no payments for systems development. The bulk of the revenues will be derived from the ongoing provision of a service based around the system. Service payments are largely based on 15 key transactions, and Andersen Consulting is expected to share some of the risk in the level of system usage.

In this case, Andersen Consulting is guaranteed payments based on 70% of the target throughput. Similarly, the cost to the government is capped at approximately 125% of the estimated level of transactions regardless of whether or not this level is exceeded.

Within NIRS 2, the government expects to achieve a 60% saving compared to the costs of building and running the system within the public sector.

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EDS Launches Client/Server Group in Europe

EDS has traditionally been mainframe-centric and the company has been comparatively slow to assemble a full range of distributed systems management services. This situation has been exacerbated by the focus of Technical Products Division (TPD), the company's former desktop services arm. TPD has, in recent years, exhibited the characteristics of a distributor rather than those of an outsourcing vendor, with a focus on product supply and logistics rather than systems management.

However, EDS is now placing greater emphasis on developing client/server and desktop services business and in developing outsourcing-style relationships with clients in this area. In particular, the company has:

- Combined its Technical Products Division (TPD) and Client Server Technology Services (CSTS) into a single group
- Conducted an internal launch of its Renaissance Distributed Systems Management offering
- Developed a framework for marketing Renaissance to its existing customers.

Formation of Client/Server Group - Europe

In Spring 1995, EDS combined its existing Technical Products Division (TPD) and Client Server Technical Services (CSTS) organisation into a single entity: Client/Server Group (CSG).

Prior to this reorganisation, TPD focused on desktop product sales and logistics while CSTS focused on technical consultancy, design and implementation within client/server environments.

The newly formed Client/Server Group is a global entity focused on client/server services covering EDS' operations in the U.S., Canada, Europe and the Pacific Rim. It is estimated by EDS to have combined revenues of \$2.5 billion per annum.

Within Europe, Client/Server Group employed approximately 500 personnel at year end 1995 and aims to employ approximately 1,000 by the end of the 1st quarter 1996.

The mission statement of EDS' Client/Server Group is *to create and optimise a standard Client/Server environment that provides a*

consistently high level of reliability and functionality and enables our customers to meet their business needs.

CSG Europe is located in France, Germany, Italy, U.K., Belgium, Netherlands, Sweden and Spain. Its principal service offerings are listed in Exhibit 1.

Exhibit 1

EDS CSG: Service Offerings

Offering	Components
Outsourcing	Renascence Distributed Systems Management
SI & Projects	Desktop systems Network systems (Lan/Wan) Messaging Lotus Notes
Services	Network & systems management Field services Technical consultancy & design Help desks Product fulfilment & management
Logistics	Product management Integration & shipping Order management
Product supply	PCs, Printers, Servers, Lan S/W licences - Microsoft, CA, Lotus, Novell

Source: EDS

Within the Renascence Distributed Systems Management service, EDS aims to own the equipment and facilities for IT service and charge the customer a fixed fee for a fixed service level.

However, in contrast to EDS' typically highly bundled approach to outsourcing, EDS will

also sell individual service packages based around, for example, help desk, network and systems management, and product fulfilment.

EDS is building Renascence Centres to manage customers' client/server-based IT infrastructures remotely. However, EDS recognises that in some cases it will face infrastructures that are in need of considerable development and it may not be possible to manage such infrastructures remotely for some time. In other cases, organisations will regard their data as too sensitive for remote management to be acceptable. In instances such as these, CSG will build versions of its Renascence management centres on client premises.

CSG expects clients' desktop infrastructures to progress through a number of stages of increasing maturity namely:

- Initial
- Stable
- Consistent
- Leveraged
- Optimised.

The stage of maturity of the customer infrastructure determines the degree of reengineering required and the extent to which user support costs can be reduced and remote management implemented.

Internal Launch Of Renascence Distributed Systems Management

CSG Europe conducted an internal launch of its services to its fellow EDS Strategic Business Units (SBUs) in the last quarter of 1995.

CSG stressed its ability to take an holistic approach to the client's business, encompassing:

- The client's business needs
- Financial savings
- Staff transition
- Operations provision.

CSG has developed a number of tools to assist in selling its Renaissance services. In particular, CSG stresses that the assessment methodology within Renaissance is not technology-driven, but provides:

- Process/functional analysis
- Technology analysis
- Financial analysis
- Solutions development recommendations.

The principal components of each of these assessments are listed in Exhibit 2.

Overall the Renaissance assessment aims to:

- Provide a comprehensive assessment of the current environment
- Define costs clearly
- Identify gaps and overlaps in service
- Identify service levels and service level expectations
- Compare existing processes with best practices
- Identify pockets of excellence that can be leveraged

Exhibit 2

EDS CSG: Assessment Methodology

Assessment Area	Outputs
Functional	Identification of sources of support & skill levels Understanding of work flows Understanding of work patterns Definition of service levels Identification of gaps & overlaps in service Baseline metrics for user satisfaction
Technical	Inventory of hardware & software Identification of hardware and software standards Definition of network & connectivity
Financial	Definition of all costs Identification of average cost per desktop device Increased visibility for each expense category

Source: EDS

- Ensure thorough understanding of the client's business situation and needs prior to in-depth consideration of outsourcing
- Provide detailed costs and benefits of outsourcing.

Joint Marketing With EDS SBUs

CSG will initially target existing EDS clients with its Renaissance offering. CSG does not have direct access to the market but must work in partnership with EDS' industry-facing SBUs.

The SBU owns the customer relationship and is responsible for leading the identification of benefits for each client or prospect.

CSG is currently working with the SBUs to develop goals and objectives, select targets, and form pursuit teams to market its services.

CSG regards itself as the Renascence subject matter expert and provides the following sales support services to the SBUs:

- Presentation of offering to clients
- Bid management
- Proposal creation
- Costing management
- Contract negotiations.

Despite the technical nature of much of the Renascence offering, EDS will stress its

ability to contribute to the client's business goals through Renascence. Specifically, EDS will stress Renascence's capability to:

- Harmonise technology changes with changes in the client's business environment as business cycles continue to shorten
- Align client/server technology with business need
- Facilitate ongoing change
- Make mission-critical applications available throughout the client's organisation
- Manage technology costs.

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Cap Gemini Sogeti Increases Focus on Delivering Business Value

Cap Gemini Sogeti has since its acquisition of Hoskyns been one of the leaders in the European outsourcing market. Much of the organisation's outsourcing expertise has been derived from its U.K. arm, Hoskyns, which has been the market leader in outsourcing in the U.K. since the formation of the market.

However over the past two years, Cap Gemini Sogeti's, and Hoskyn's, leadership position in

Exhibit 1

the European outsourcing market has been increasingly threatened by leading U.S. vendors such as EDS and CSC. This increased competition combined with the slowdown in IT services growth in Europe has had a significant impact on Cap Gemini Sogeti's financial results in recent years. These results are listed in Exhibit 1.

Financial Results: Cap Gemini Sogeti

	1990	1991	1992	1993	1994
Revenue (\$m)	1718	1878	2225	2065	1906
Revenue Growth (%)		9.3	18.5	(7.2)	(7.7)
Net Income (\$m)	117	105	(13)	(80)	(18)
Net margin (%)	6.8	5.6	(0.6)	(3.9)	(0.9)
Revenue per person (\$000s)	104	104	103	99	100

Source: Cap Gemini Sogeti

Cap Gemini Sogeti is now modifying its strategy in the outsourcing market to improve its competitiveness. In particular, the company is:

- Placing more emphasis on an industry sector approach

- De-emphasising individual service offerings in favour of a more value-based approach
- Developing its business operations capability

Placing More Emphasis On An Industry Sector Approach

Cap Gemini Sogeti re-organised to emphasise industry focus rather than service focus at the beginning of 1993. This resulted in each of the company's Strategic Business Areas (SBAs) taking on a sector responsibility. At the same time, industry sector units were set up within each SBA.

The allocation of industry responsibility to the SBAs is listed in Exhibit 2.

The purpose of this allocation of industry responsibility to an individual SBA is to ensure that Cap Gemini Sogeti's industry-specific capability is communicated and shared throughout the group.

This industry sector focus has also been extended to the operations within each

country. For example, the organisation of Hoskyns in the U.K. is listed in Exhibit 3.

Exhibit 2

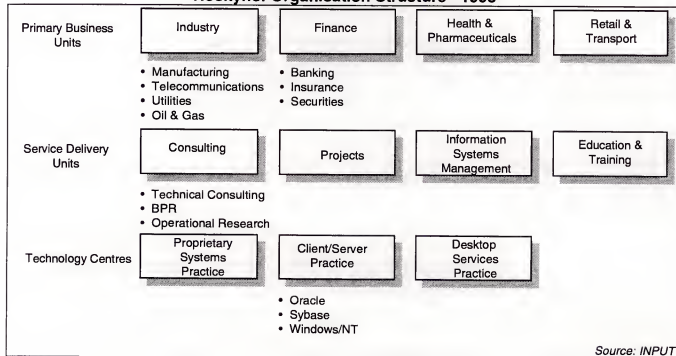
Industry Sector Responsibility

SBA	Sector(s)
United States	Process industries
United Kingdom	Finance
Nordic countries	Utilities
Benelux	Distribution & Logistics Travel, Transport & Tourism
Germany	Government & Public Services
Ile-de-France	Telecommunications & Media
French Regions, Austria, Switzerland, Italy, Spain	Manufacturing

Source: Cap Gemini Sogeti

Exhibit 3

Hoskyns: Organisation Structure - 1995



Source: INPUT

When Cap Gemini Sogeti initially established its industry sector organisation structure, two years ago, the service delivery units retained their own route to market. In addition, the financial results of each SBA were measured both by industry sector unit and by delivery unit. This resulted in conflicts of interest and prevented the new organisation from achieving full effectiveness.

Cap Gemini Sogeti has now adopted a strategy, similar to the one used by EDS, of allocating all revenues to the industry units and not to service delivery units. This, Cap Gemini Sogeti hope, will prevent conflicts of interest in the future and assist them in achieving a stronger industry sector focus.

De-Emphasising Individual Service Offerings In Favour Of A More Value-Based Approach

Cap Gemini Sogeti has a full-service outsourcing capability broadly similar in capability to that of EDS. However, the company has traditionally positioned its outsourcing offerings in a very different manner from that adopted by EDS.

EDS has stressed concepts such as the *Impact Gap* and has typically sought to take over the whole of the IT function within an organisation. On the other hand, Cap Gemini Sogeti has positioned itself under the banner "Total Respect", emphasising its determination never to infringe on its clients' freedom. In many cases this message will appeal to IT management faced with external challenges to their authority from vendors such as EDS.

However, there are dangers in this approach, namely:

- It tends to position the company as a provider of technical support rather than as a provider of business value
- It may over-focus on IT management rather than senior business executives

This approach was in the past complemented by Cap Gemini Sogeti's emphasis on the individual service lines within its outsourcing service portfolio such as:

- Central computing services
- Application management
- Distributed computing services

As a result the company has achieved a leadership position in application management for example, but has tended to sell its outsourcing services in an incremental manner.

This traditional approach to outsourcing is illustrated by the outsourcing contracts won by Hoskyns in the U.K. in 1995, which are listed in Exhibit 4.

Cap Gemini Sogeti now intends to change this positioning by de-emphasising the individual service components and stressing its ability to improve business processes.

The company's Operational Research unit is beginning to make a contribution to this goal by assisting Cap Gemini Sogeti in measuring the impact of IT on business processes.

Hoskyns: Outsourcing Contracts – 1995

Client	Contract Value (£m)	Contract Length (years)	Nature of contract
Bank of England	15	5	Operation of Crest Settlement System
British Gas	55	1.5	Run-down of mainframes
Coopers & Lybrand	7.2	3	Mainframe & 35 personnel
Hill Samuel			Manage run-down of systems supporting life assurance

Source: INPUT

Cap Gemini Sogeti is also concerned about the level of investment required to maintain a position at the forefront of desktop services outsourcing. The tools and infrastructure required for success in desktop services outsourcing necessitate competing with organisations such as IBM and Olivetti in building a global support infrastructure. In addition the nature of the tools and infrastructure required is evolving rapidly at the present time and clients are often seeking to outsource a problem at a highly competitive price.

Consequently at a time when EDS is beginning to offer desktop services outsourcing as an entity distinct from full-service outsourcing, Cap Gemini Sogeti is tending to concentrate on desktop services outsourcing only as a component of wider outsourcing contracts.

Developing Its Business Operations Capability

Finally Cap Gemini Sogeti's increased focus on business value is complemented by its move into business operations outsourcing.

In the U.K. Hoskyns has established a business process management centre in Livingston, Scotland manned by 40 personnel.

One of its initial contracts is a parking ticket service for the London Borough of Brent. In this case, Hoskyns provides a full service, including traffic wardens, and is paid according to the number of fines collected. Hoskyns uses techniques such as high-speed scanning to reengineer the processes involved in ticket services.

Cap Gemini Sogeti will increase its focus on business operations outsourcing in the near future, extending its activities to other business processes.

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CSC Has Exceptional Year in European Outsourcing

Despite its outsourcing contract with BhS, CSC had a comparatively minor presence in the European outsourcing market prior to 1994.

However, since the award of an outsourcing contract by British Aerospace in early 1994, CSC has become of one of the most successful outsourcing vendors in Europe.

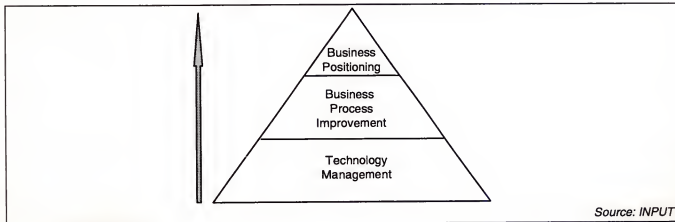
Much of their current success is based on their early adoption of a philosophy emphasising the role of outsourcing as a contributor of business value and the company's provision of a full set of services from management

consultancy to platform operations. This philosophy has been executed whilst remaining a very price-competitive provider of datacentre management services.

However, CSC perceives that the outsourcing market has moved beyond a focus on technology management and is now primarily concerned with business process improvement (see Exhibit 1). Nonetheless efficient technology management is still important since it enables the outsourcing vendor to free up the resources required to fund business process improvement programmes.

Exhibit 1

CSC: Perceived Outsourcing Evolution



In 1995, CSC has further established itself as one of the leading outsourcing vendors in Europe by winning outsourcing contracts in the U.K. with a total contract value in excess of \$1.2 billion.

In addition to its emphasis on business value, CSC's business philosophy includes:

- An emphasis on customer intimacy
- Stressing the management, rather than the replacement, of legacy systems

Exhibit 2

Winning In Excess Of \$1.2 Billion Outsourcing Contract Value In The U.K. In 1995

Exhibit 2 lists the majority of the outsourcing contracts won by CSC in the U.K. in 1994 and 1995.

1995 has been an exceptional year for CSC in the U.K. with seven major contract wins worth in excess of \$1.2 Billion in lifetime value. In addition to these contracts CSC has extended its involvement with BhS through a major systems integration contract valued at \$100m.

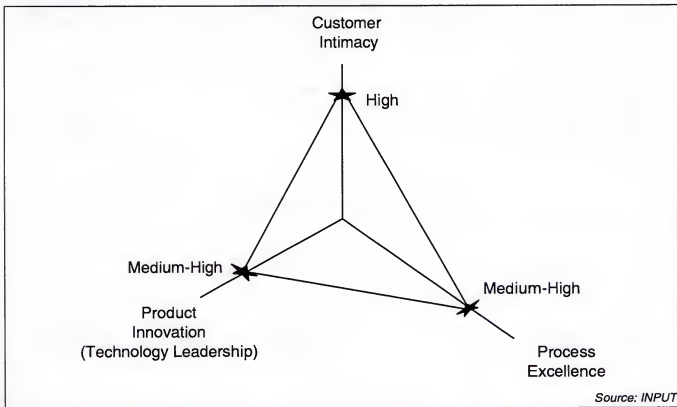
Recent Outsourcing Contracts: CSC Europe

Client	Year Awarded	Contract Value (\$m)	Contract Length (years)	Nature of Contract
Anglian Water	1995	235	10	Applications operations
Autoglass	1995	45	10	Applications operations
ICI Paints	1995	45	5	Migration from SAP R/2
John Menzies Retail	1995	65	10	
Lucas Industries	1995	800	10	World-wide applications operations
Oxford Consortium (NHS)	1995	15 per annum		Administrative services for hospitals
Scottish Health Service Trusts	1995	70	3	Platform operations
Ford of Europe	1994	110	5	IT functions for Ford's Customer Service Division
British Aerospace	1994	1400	10	Applications operations
Total value		*2770		

Source: INPUT

Notes: * excludes Oxford Consortium also excludes revenues from the acquisition of Lucas' software and consultancy business

Exhibit 3

CSC: Target Positioning

Source: CSC

The contract with BhS will assist the company in implementing the recommendations made by CSC Index, CSC's consultancy unit. These recommendations are primarily designed to assist BhS in reducing its time to market from an average of 250 days to a new target of 16 days.

CSC's acquisition of the Oxford Consortium is particularly significant since it provides CSC with an entry in the U.K. business operations market. This market will expand substantially over the next few years, especially services to the public sector.

However one of the key challenges for CSC in 1996 is extending its success with U.K.-based multinationals to organisations based elsewhere in Europe.

CSC has yet to make the same impression in France and Germany as has been achieved in the U.K. Awareness of the company's offerings in Europe is generally low, particularly in France.

So far, CSC has profited from the high level of marketing activity and outsourcing promotion emanating from EDS.

Emphasising Its Customer Intimacy

Exhibit 3 illustrates CSC's market positioning.

CSC sees the key to its success as being a *customer intimate* organisation. The company aims to maintain parity in process capability/efficiency but does not view this as a core differentiator.

This strategy has two significant benefits for CSC:

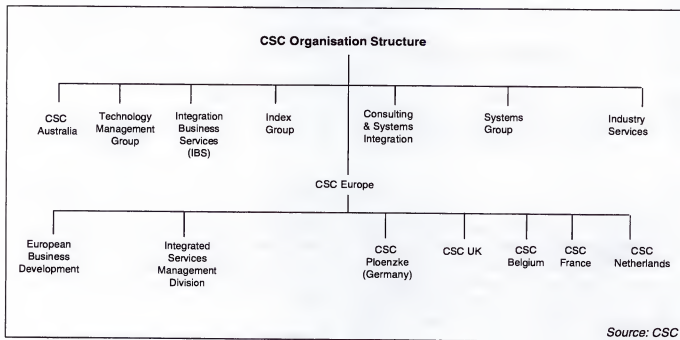
- Firstly a high level of flexibility is one of the keys to success in the European outsourcing market.
- Secondly this approach enables the company to differentiate its style from that of EDS which is seen as a more process-oriented organisation.

Exhibit 4

In line with this positioning, CSC has a global resource policy and tends to organise around account teams rather than emphasising the industry sector approach typically practised by other leading outsourcing vendors.

CSC's organisation structure is listed in Exhibit 4.

CSC: Organisation Structure



The role of each of the major divisions is as follows:

- IBS - Provides co-ordination across service and country boundaries
- Index Group provides consultancy services and includes both the Index Group and CSC Research and Advisory Services (R&AS). In Europe, the R&AS unit includes the services acquired from Butler Cox. R&AS is important in promoting innovation in business concepts and innovation in the use of IT to senior executives and IT management.
- The Consulting and SI Division is primarily concerned with the alignment of IT with business processes. This division contains a unit specialising in the telecommunications sector.
- The Systems Group focuses on U.S. Federal business particularly within the U.S. Department of Defence

- The Industry Services Division focuses on transaction processing opportunities primarily within healthcare and credit services.

Within CSC Europe, the European Business Development Group focuses on winning large outsourcing and SI contracts. Each major contract won, typically delivered across a range of countries, then becomes the responsibility of the Integrated Services Management Division. For example, the Ford contract involves service provision across 17 countries and the Lucas contract involves 30 countries.

The remaining national organisations primarily deliver consulting services and systems integration services across small to medium-sized contracts.

Stressing The Management, Rather Than The Replacement, Of Legacy Systems

Many organisations wish to use IT to more actively support the development of business opportunities. However, few organisations, and even fewer of those that adopt outsourcing, wish to significantly increase their IT expenditure.

Consequently it is not sufficient for organisations just to identify new ways of applying IT. In addition, they need to increase the productivity of their existing IT resources and assets.

CSC believes that this should typically be achieved not by replacing mainframe-based legacy systems but by managing them more

cost-effectively. These apparent cost savings can then be used to fund the development of new systems and improved IT infrastructure.

CSC promotes its contract with BAe as an example of this process. In particular, CSC rationalised BAe's existing IT infrastructure in the first year of the contract by:

- Reducing the number of data centres from 20 to 6, spread over four sites. Combined with use of new equipment, this has resulted in a 25-30% reduction in the cost of mainframe processing services.
- Consolidating 17 help desks into two regional customer services centres.
- Improved asset management including the closure of 1000 leases

These cost savings have enabled CSC to invest \$30 million in upgrading BAe's IT infrastructure, including:

- Installation of a new wide area network incorporating improved flexibility and forming a platform for EDI, E-mail, and Internet links to BAe's partners, suppliers and customers.
- Enhanced super computer capability including a capacity increase of 250%.
- Improvements in service delivery.

CSC has also begun to introduce best practice into the development of applications software, including the implementation of a software metrics process and a Rapid Application Development methodology.

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Vendor Profile

A Publication from INPUT's Outsourcing Information Systems Programme – Europe

1995

Thomson FM Aims to Achieve Revenues of FF1Bn

Thomson FM is one of the Thomson Group IT services subsidiaries. Thomson FM was established in 1993 and by end 1995 had established revenues of FF270m. The company focuses on outsourcing and aims to grow its revenues to FF1 billion via:

- Extending its presence within fellow Thomson Group subsidiaries
- Increasing its presence in the external outsourcing market
- Acquisition or partnership

Extending Presence Within Thomson Group Subsidiaries

The Thomson Group is one of the leading electronics groups world-wide with annual revenues in 1994 of FF74 Billion. Within the Thomson Group, Thomson CSF the Group's FF37 Billion operation in professional electronics has 80 separate units with profit and loss responsibility and between them these units have an IT budget of FF1.4 Billion.

One of the goals of Thomson FM is to assist the group in reducing this expenditure by up to 20%.

Thomson FM was initially formed as a department within Syseca in mid-1993. However, it was established as a separate subsidiary in 1994. Syseca is a fellow IT services company within the Thomson group specialising in systems integration. Syseca employs approximately 3000 personnel and has annual revenues of FF1.7 Billion.

The subsidiaries within the Thomson Group are not obliged to use Thomson FM and may go out to tender for outsourcing services to third-party vendors. At the end of 1995, Thomson FM had achieved revenues of FF270m and employed 190 personnel. All of these revenues were derived from subsidiaries within the Thomson Group.

At the end of the third quarter of 1995, Thomson FM were responsible for managing approximately 1000 scientific workstations and 15000 personal computers.

Thomson FM's approach to fellow subsidiaries is frequently linked to specific applications. For example, Thomson FM currently manages the payroll for all units with a production volume of 500,000 items processed per annum.

Thomson FM would like to extend this approach to other applications. In doing so, Thomson FM would expect to work in partnership with Syseca.

Another organisation which partners with Thomson FM is Thomainfor. Thomainfor is a specialist third-party maintenance company that employs approximately 1500 personnel and has revenues of approximately FF 1 Billion.

Although Thomson FM manages a number of mainframes, the company specialises primarily in the management of distributed systems and communications.

Its capabilities include:

- Both LAN and WAN management
- The management of voice and image transmission, including management of PABX, phones and cabling and management of liaison with carriers
- The optimisation of the cost of communication

Thomson FM manages the entire wide area network for the Thomson Group, covering:

- 80 sites
- 400 data links
- 800 voice links
- The management of 20-30 PABX installations

Techniques used by Thomson FM to optimise communications costs within the Thomson Group include voice compression and least cost routing. The wide area network within the Thomson Group is primarily based on X.25, SNA, and TCP-IP protocols, frame relay

and ATM links are beginning to be implemented.

Increasing Presence In The External Outsourcing Market

Thomson FM intends to achieve growth both within the Thomson Group and externally. In particular, the organisation is targeting FF500m in external revenues.

Externally Thomson FM is offering the following services:

- Virtual Private Networks
- WAN management
- LAN management

Thomson FM perceives that one of its strengths is its ability to combine expertise from the two domains of voice and data communication. These domains have traditionally been culturally very different and managed by differing organisations.

Thomson FM aims to assist organisations in optimising their communications by integrating technologies and in introducing new network-intensive applications. In particular, the linkage of PABXs and LANs may be create opportunities for new types of application.

The increasing need to interconnect site LANs and to utilise new technologies such as multimedia will create considerable opportunity for vendors such as Thomson FM over the next few years.

Within the arena of desktop services, Thomson FM offers:

- A single point of contact and customer support

- Management of LANs and servers to analyse network traffic and usage
- Asset management services including financing to offer the client the option of pricing on a price per seat basis
- Management of relationships with carriers and telecommunications equipment vendors

Generally desktop services contracts will be highly tailored to the individual client. However, Thomson FM is ideally seeking long-term partnerships with its clients, with contracts of up to 10 years in length.

Acquisition Or Partnership

Thomson FM is also interested in achieving growth via partnership or acquisition. The organisation will actively partner with its fellow Thomson subsidiaries: Syseca and Thomainfor.

However the organisation is also interested in forming alliances with organisations in a similar position i.e. former in-house service departments that are now seeking to extend their services into external markets. This is one way in which Thomson FM could significantly extend its service coverage into additional national markets and compete with the leading desktop services providers for international contracts.

In addition, Thomson FM is interested in outright acquisitions. Suitable candidates would be national service providers with:

- Revenues between FF100m and FF500m
- Expertise in networking/distributed systems management
- Cultural compatibility - possibly achieved via a similar industrial background to that of Thomson FM

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Vendor Profile

A Publication from INPUT's Outsourcing Information Systems Programme – Europe

1995

Capita Group Expands Its Business Operations Services

The Capita Group was established in 1987 as a management buy-out from the Chartered Institute of Public Finance and Accountancy (CIPFA), a professional body in the UK public sector.

Since then the company has rapidly established itself as one of the leading vendors in the outsourcing of IT functions and business functions within the U.K. local government sector. This focus has resulted in the rapid revenue growth shown in Exhibit 1.

Exhibit 1

It is likely that the company will continue to exhibit strong growth over the next few years as:

- Demand for managed services accelerates in U.K. local authorities
- Capita expands its services into new sectors.

Capita Group: Financial Summary

	1991	1992	1993	1994
Revenues (£m)	24.7	33.1	50.2	73.7
Revenue Growth (%)	23	34	52	47
Pre-tax Profit (£m)	3.4	4.4	5.5	7.9
Margin (%)	13.8	13.3	11.0	10.7

Source: Capita Group

Demand For Managed Services Accelerates In U.K. Local Authorities

Growth in outsourcing has been one of the major factor's contributing to the success of Capita. Exhibits 2 and 3 list the revenues from Capita's outsourcing division.

Exhibit 2

Revenue Breakdown by Service Type, 1994

Service	Revenues (£m)	Growth 93-94 (%)
Outsourcing	51.2	67
Property	13.5	44
Advisory	9.1	(10)
Total	73.7	47

Source: Capita Group

Exhibit 3

Outsourcing Division: Financial Summary

	1991	1992	1993	1994
Revenues (£m)	11.2	14.1	30.6	51.2
Revenue Growth (%)		26	117	67
Pre-tax Profit (£m)	2.0	1.9	2.6	2.6
Margin (%)	17.9	13.5	8.5	5.1

Source: Capita Group

The outsourcing division contributed approximately two-thirds of group revenues in 1994 and has exhibited a compound annual growth rate of 67% per annum between 1991 and 1994.

However, outsourcing services are not the entire activity of the outsourcing division. In addition to Capita Managed Services Limited, the outsourcing division contains:

- SIMS
- Academy Information Systems
- John Crilley Limited - a provider of bailiff services.

SIMS, acquired in July 1994, was originally a supplier of administrative software to educational establishments. The company claims to provide software to 97 out of 119 Local Education Authorities in the U.K. However, under the influence of Capita, its new parent, SIMS is now targeting outsourcing contracts. In 1994, the company won contracts with Essex County Council and the London Borough of Croydon to provide operational support for their educational establishments.

Academy Information Systems is a specialist software product supplier to local authorities. The company is assembling a portfolio of key local authority applications, including:

- Revenue management software from west Wiltshire
- Integrated housing management software from Sherwood Computer Services
- Town planning and building control software from Dataflow Information Systems.

These applications provide a high level of synergy with Capita's managed services offerings since they both underpin these services and provide a base from which customers can readily migrate to managed services with minimum inconvenience.

Capita is one of the leading vendors in both IT outsourcing and managed services for U.K. local authorities. At year end 1994, Capita had 20 IT outsourcing contracts, the majority with local authorities, and collected \$2 billion of local authority debt and business rates. In addition, the company processes benefit payments, payroll and pensions. Examples of the company's local authority contracts are published in INPUT's previous profile of Capita (November 1994).

One of Capita's challenges is to increase its penetration of individual accounts. Local authorities are wary of creating monopoly suppliers and tend to deliberately maintain a portfolio of suppliers.

For example Capita Managed Services is a supplier of managed services, principally revenue collection, on behalf of both Bromley

and Westminster councils. However both of these councils already had IT outsourcing contracts in place.

To facilitate delivery of its managed services, Capita needs to persuade such clients to additionally use the company for IT outsourcing and provision of key software products.

Currently, reengineering of processes is not a major concern in the U.K. local authority sector. However, Capita would like to simplify its processes by moving to a common set of procedures for revenue collection and is currently considering writing a GUI front-end to impose commonality across a range of revenue management systems in use within local authorities.

Capita is still extending the range of managed services offered to local government.

For example, Capita has recently won the contract to manage the introduction of a voucher system for pre-school education in three London boroughs and in Norfolk. Capita will be responsible for:

- Application processing
- Issuing vouchers
- The construction and maintenance of databases covering eligible children and educational establishments
- Weekly payment schedules.

Capita Expands Its Services Into New Sectors

Outside the local authority sector, Capita has established managed services contracts with:

- The DVLA (Driver & Vehicle licensing Authority) for the sale of vehicle registration numbers
- BBC for licence fee collection.

However, Capita has significantly increased the scope for managed services outside local government in 1995.

The most significant of these contracts is the company's joint venture with Yorkshire Water Services to manage the utility's revenue collection from its offices in Bradford and Sheffield. The initial contract is estimated to be worth £14m over 7 years

but this figure is expected to rise to £54m within two years once the joint venture assumes responsibility for the whole of Yorkshire Water's revenue collection.

This contract is particularly significant since it gives Capita Managed Services Limited:

- A managed services facility in the north of England
- An entrée into providing billings management for utilities throughout the U.K.

In addition, Capita has recently signed several IT outsourcing contracts outside the local authority sector, including:

- A platform operations contract with Westland helicopters
- A desktop services contract with Wessex Water.

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Vendor Profile

A Publication from INPUT's Outsourcing Information Systems Programme – Europe

1995

Data Sciences Emphasises its Partnering Approach to Outsourcing

Data Sciences was one of the early players in the U.K. outsourcing market and achieved considerable success in mainframe outsourcing. In 1992 Data Sciences became one of the first vendors to win desktop services outsourcing business, announcing contracts with the National grid and Sedgwicks.

However, more recently, following the company's MBO from Thorn-Emi, Data Sciences has experienced difficulty in

maintaining its position in the U.K. outsourcing market. The company's financial results in recent years are listed in Exhibit 1.

In particular, the company has found that as one of the few remaining national players, it lacks the financial muscle and the geographic coverage to win the large outsourcing contracts now emerging, for example, from the manufacturing sector and from central government.

Exhibit 1

Data Sciences: Financial Results

	1992	1993	1994
Revenues (£m)	118.7	102.1	107.0
Revenue Growth (%)	-	(14)	4.8
Profit before interest and tax (£m)	5.0	(10.4)	4.3
Margin before interest and tax (%)	4.2	(10.2)	4.0

Source: Data Sciences

These contracts have tended to be won by the multinationals such as CSC and EDS.

In response to this changed competitive environment, Data Sciences has significantly increased its emphasis on partnerships. In particular the company has:

- Adopted a policy of partnering with central government departments facing market testing
- Partnered with Integris in local government
- Partnered with Unilog to acquire the French company's application management methodology.

Partnering With Central Government Departments

Data Sciences has traditionally had a major presence in the Central Government sector, particularly in defence.

The 1994 breakdown of the company's revenues by sector is listed in Exhibit 2.

Exhibit 2

Business Breakdown by Sector: 1994

Sector	Revenues (£m)	Proportion (%)
Defence	31	29
Commercial	26	24
Finance	23	21
Government	12	11
Telecomms	10	9
Aerospace	6	6
Total	107	100

Source: Data Sciences

When market testing for central government departments was introduced in the U.K. in 1992, Data Sciences decided on a strategy of

partnering with in-house teams rather than competing in opposition with them. Part of the reasoning behind this approach was the belief that the company should not further extend its datacentre coverage. Strong price competition was emerging in the platform operations market and Data Sciences decided to assist in-house service providers in fully-utilising their existing mainframe capacity, rather than adding additional datacentres of its own.

In addition, Data Sciences lacked the financial resources to bid for the major contracts such as the Inland Revenue where an external vendor was certain to win the market test. In the smaller market tests, the odds tended to favour the in-house service provider over the external vendor.

Data Sciences was successful in winning a number of contracts in Central Government. Examples of the company's recent outsourcing contracts are listed in Exhibit 3.

The contract with the Dental Practice Board is a good example of Data Sciences' ability to partner with government organisations. Data Sciences was initially selected by the Dental Practice Board's in-house IT team as its partner in bidding for the provision of computer services to the Dental Practice Board under the Government's market testing programme.

After winning the market test, Data Sciences and the Dental Practice Board then formed an alliance to jointly market their services to the health and government sectors. Under this alliance the two organisations are targeting the health sector to offer the provision of payment and claims transaction processing, payroll, human resources, accounts processing and managed exchequer services.

Exhibit 3

Data Sciences: Recent Outsourcing Contracts

Client	Year Signed	Value/Duration (£m/years)	Activity
Intervention Board	1995	31/4	
Ministry of Agriculture , Fisheries and Food	1995	-/3	Operational mainframe services
Dental Practice Board	1994	13/5	Operational mainframe services
Department of Health	1994	3.5/6	
Export Credits Guarantee Department	1993	12/5	Management of It infrastructure
Racal-Datacom	1993	3.5/-	Applications operations

*Source: INPUT***Partnered With Integris In Local Government**

Following the formation of its Integris (then Athesa) outsourcing unit by Groupe Bull in 1994, Data Sciences entered into a partnership with the company to target the local government sector.

The initial nature of this partnership was illustrated by the contract with Brighton Borough Council won by Integris and Data Sciences. Integris took over the operational management of the authority's Digital equipment while Data Sciences took over responsibility for the IBM VM/VSE mainframe facility.

However, this contract was won under conditions of extreme price competition from other local government outsourcing specialists.

As a result of the continuing high level of price competition in operational mainframe services, Data Sciences has now withdrawn from this market and has sold its mainframe datacentres to Integris, who Data Sciences believe are better placed to finance the high investment required for success in this market place.

Data Sciences will continue to manage non-mainframe equipment on behalf of its clients.

At the end of 1993, Data Sciences' datacentres were as listed in Exhibit 4.

Exhibit 4

Data Sciences: Datacentre Locations

Location	Equipment
Sunbury	IBM - MVS Amdahl - MVS Tandem
Cambridge	IBM - VSE Unix
Swindon	ICL - VME Unix
Croydon	Digital Bull IBM AS/400 Unix

Source: Data Sciences

In addition Data Sciences managed an extensive range of IBM AS/400s, Unix based and Digital equipment, and local area networks located on client sites.

Partnering with Unilog

Although Data Sciences has considerable experience in systems integration (the company's revenue breakdown by service type is listed in Exhibit 5), the company has not traditionally competed in the applications management market due to the lack of an appropriate methodology.

However, following its withdrawal from mainframe operations outsourcing, Data Sciences is now placing considerable emphasis on application management.

In order to acquire the expertise and methodology required, Data Sciences has formed a partnership with Unilog, the French application management specialist.

Exhibit 5

**Business Breakdown by Service Type:
1994**

Service Type	Revenues (£m)	Proportion (%)
SI/Project Services	47	44
Operations Services	33	31
Applications Software	20	19
Consultancy	6	6
Total	107	100

Source: Data Sciences

This offering is now branded as GENUS/AM by Data Sciences to position it as part of Data Sciences' GENUS programme which offers an approach to supporting the IT life cycle based on an object-based software environment and a library of re-usable code. Data Sciences believes one of the major benefits of GENUS-AM to be its ability to use object-oriented reengineering techniques including the encapsulation of old code into objects to be integrated with new systems.

The GENUS/AM methodology includes the following phases:

- Audit
- Software Maintenance Plan
- Quality Plan
- Handover Phase
- Service Management.

Data Science is marketing GENUS-AM in the U.K. and the Netherlands and will operate in conjunction with Unilog where applicable. Data Sciences perceives that the

largely national outsourcing vendors will need to partner with one another to face the increasing competition from their major U.S. competitors.

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1995

Thomson FM Aims to Achieve Revenues of FF1Bn

Thomson FM is one of the Thomson Group IT services subsidiaries. Thomson FM was established in 1993 and by end 1995 had established revenues of FF270m. The company focuses on outsourcing and aims to grow its revenues to FF1 billion via:

- Extending its presence within fellow Thomson Group subsidiaries
- Increasing its presence in the external outsourcing market
- Acquisition or partnership

Extending Presence Within Thomson Group Subsidiaries

The Thomson Group is one of the leading electronics groups world-wide with annual revenues in 1994 of FF74 Billion. Within the Thomson Group, Thomson CSF the Group's FF37 Billion operation in professional electronics has 80 separate units with profit and loss responsibility and between them these units have an IT budget of FF1.4 Billion.

One of the goals of Thomson FM is to assist the group in reducing this expenditure by up to 20%.

Thomson FM was initially formed as a department within Syseca in mid-1993. However, it was established as a separate subsidiary in 1994. Syseca is a fellow IT services company within the Thomson group specialising in systems integration. Syseca employs approximately 3000 personnel and has annual revenues of FF1.7 Billion.

The subsidiaries within the Thomson Group are not obliged to use Thomson FM and may go out to tender for outsourcing services to third-party vendors. At the end of 1995, Thomson FM had achieved revenues of FF270m and employed 190 personnel. All of these revenues were derived from subsidiaries within the Thomson Group.

At the end of the third quarter of 1995, Thomson FM were responsible for managing approximately 1000 scientific workstations and 15000 personal computers.

Thomson FM's approach to fellow subsidiaries is frequently linked to specific applications. For example, Thomson FM currently manages the payroll for all units with a production volume of 500,000 items processed per annum.

Thomson FM would like to extend this approach to other applications. In doing so, Thomson FM would expect to work in partnership with Syseca.

Another organisation which partners with Thomson FM is Thomainfor. Thomainfor is a specialist third-party maintenance company that employs approximately 1500 personnel and has revenues of approximately FF 1 Billion.

Although Thomson FM manages a number of mainframes, the company specialises primarily in the management of distributed systems and communications.

Its capabilities include:

- Both LAN and WAN management
- The management of voice and image transmission, including management of PABX, phones and cabling and management of liaison with carriers
- The optimisation of the cost of communication

Thomson FM manages the entire wide area network for the Thomson Group, covering:

- 80 sites
- 400 data links
- 800 voice links
- The management of 20-30 PABX installations

Techniques used by Thomson FM to optimise communications costs within the Thomson Group include voice compression and least cost routing. The wide area network within the Thomson Group is primarily based on X.25, SNA, and TCP-IP protocols, frame relay

and ATM links are beginning to be implemented.

Increasing Presence In The External Outsourcing Market

Thomson FM intends to achieve growth both within the Thomson Group and externally. In particular, the organisation is targeting FF500m in external revenues.

Externally Thomson FM is offering the following services:

- Virtual Private Networks
- WAN management
- LAN management

Thomson FM perceives that one of its strengths is its ability to combine expertise from the two domains of voice and data communication. These domains have traditionally been culturally very different and managed by differing organisations.

Thomson FM aims to assist organisations in optimising their communications by integrating technologies and in introducing new network-intensive applications. In particular, the linkage of PABXs and LANs may be create opportunities for new types of application.

The increasing need to interconnect site LANs and to utilise new technologies such as multimedia will create considerable opportunity for vendors such as Thomson FM over the next few years.

Within the arena of desktop services, Thomson FM offers:

- A single point of contact and customer support

- Management of LANs and servers to analyse network traffic and usage
- Asset management services including financing to offer the client the option of pricing on a price per seat basis
- Management of relationships with carriers and telecommunications equipment vendors

Generally desktop services contracts will be highly tailored to the individual client. However, Thomson FM is ideally seeking long-term partnerships with its clients, with contracts of up to 10 years in length.

Acquisition Or Partnership

Thomson FM is also interested in achieving growth via partnership or acquisition. The organisation will actively partner with its fellow Thomson subsidiaries: Syseca and Thomainfor.

However the organisation is also interested in forming alliances with organisations in a similar position i.e. former in-house service departments that are now seeking to extend their services into external markets. This is one way in which Thomson FM could significantly extend its service coverage into additional national markets and compete with the leading desktop services providers for international contracts.

In addition, Thomson FM is interested in outright acquisitions. Suitable candidates would be national service providers with:

- Revenues between FF100m and FF500m
- Expertise in networking/distributed systems management
- Cultural compatibility - possibly achieved via a similar industrial background to that of Thomson FM

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Vendor Profile

A Publication from INPUT's Outsourcing Information Systems Programme – Europe

1995

CSC Has Exceptional Year in European Outsourcing

Despite its outsourcing contract with BHS, CSC had a comparatively minor presence in the European outsourcing market prior to 1994.

However, since the award of an outsourcing contract by British Aerospace in early 1994, CSC has become one of the most successful outsourcing vendors in Europe.

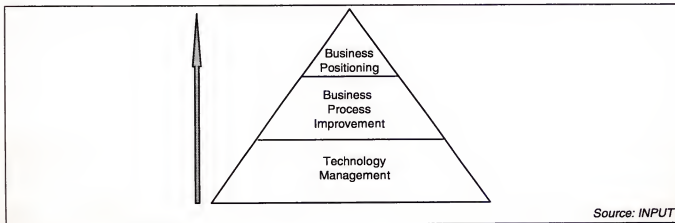
Much of their current success is based on their early adoption of a philosophy emphasising the role of outsourcing as a contributor of business value and the company's provision of a full set of services from management

Exhibit 1

consultancy to platform operations. This philosophy has been executed whilst remaining a very price-competitive provider of datacentre management services.

However, CSC perceives that the outsourcing market has moved beyond a focus on technology management and is now primarily concerned with business process improvement (see Exhibit 1). Nonetheless efficient technology management is still important since it enables the outsourcing vendor to free up the resources required to fund business process improvement programmes.

CSC: Perceived Outsourcing Evolution



In 1995, CSC has further established itself as one of the leading outsourcing vendors in Europe by winning outsourcing contracts in the U.K. with a total contract value in excess of \$1.2 billion.

In addition to its emphasis on business value, CSC's business philosophy includes:

- An emphasis on customer intimacy
- Stressing the management, rather than the replacement, of legacy systems

Winning In Excess Of \$1.2 Billion Outsourcing Contract Value In The U.K. In 1995

Exhibit 2 lists the majority of the outsourcing contracts won by CSC in the U.K. in 1994 and 1995.

1995 has been an exceptional year for CSC in the U.K. with seven major contract wins worth in excess of \$1.2 Billion in lifetime value. In addition to these contracts CSC has extended its involvement with BhS through a major systems integration contract valued at \$100m.

Exhibit 2

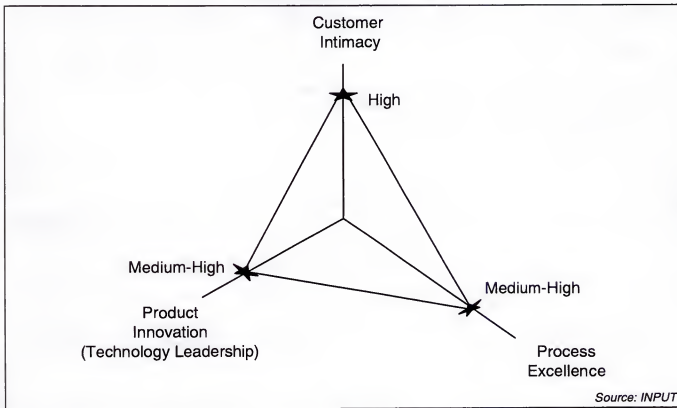
Recent Outsourcing Contracts: CSC Europe

Client	Year Awarded	Contract Value (\$m)	Contract Length (years)	Nature of Contract
Anglian Water	1995	235	10	Applications operations
Autoglass	1995	45	10	Applications operations
ICI Paints	1995	45	5	Migration from SAP R/2
John Menzies Retail	1995	65	10	
Lucas Industries	1995	800	10	World-wide applications operations
Oxford Consortium (NHS)	1995	15 per annum		Administrative services for hospitals
Scottish Health Service Trusts	1995	70	3	Platform operations
Ford of Europe	1994	110	5	IT functions for Ford's Customer Service Division
British Aerospace	1994	1400	10	Applications operations
Total value		*2770		

Source: INPUT

Notes: * excludes Oxford Consortium also excludes revenues from the acquisition of Lucas' software and consultancy business

Exhibit 3

CSC: Target Positioning*Source: CSC*

The contract with BhS will assist the company in implementing the recommendations made by CSC Index, CSC's consultancy unit. These recommendations are primarily designed to assist BhS in reducing its time to market from an average of 250 days to a new target of 16 days.

CSC's acquisition of the Oxford Consortium is particularly significant since it provides CSC with an entry in the U.K. business operations market. This market will expand substantially over the next few years, especially services to the public sector.

However one of the key challenges for CSC in 1996 is extending its success with U.K.-based multinationals to organisations based elsewhere in Europe.

CSC has yet to make the same impression in France and Germany as has been achieved in the U.K. Awareness of the company's offerings in Europe is generally low, particularly in France.

So far, CSC has profited from the high level of marketing activity and outsourcing promotion emanating from EDS.

Emphasising Its Customer Intimacy

Exhibit 3 illustrates CSC's market positioning.

CSC sees the key to its success as being a *customer intimate* organisation. The company aims to maintain parity in process capability/efficiency but does not view this as a core differentiator.

This strategy has two significant benefits for CSC:

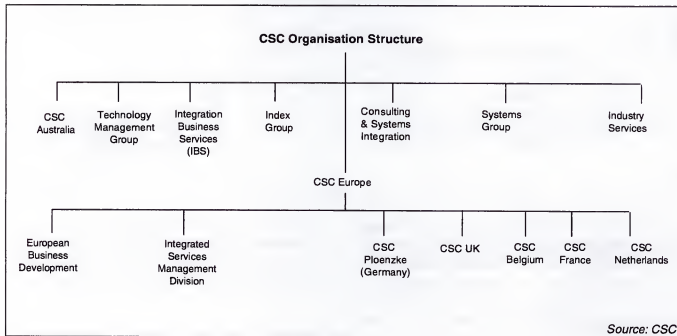
- Firstly a high level of flexibility is one of the keys to success in the European outsourcing market.
- Secondly this approach enables the company to differentiate its style from that of EDS which is seen as a more process-oriented organisation.

Exhibit 4

In line with this positioning, CSC has a global resource policy and tends to organise around account teams rather than emphasising the industry sector approach typically practised by other leading outsourcing vendors.

CSC's organisation structure is listed in Exhibit 4.

CSC: Organisation Structure



The role of each of the major divisions is as follows:

- IBS - Provides co-ordination across service and country boundaries
- Index Group provides consultancy services and includes both the Index Group and CSC Research and Advisory Services (R&AS). In Europe, the R&AS unit includes the services acquired from Butler Cox. R&AS is important in promoting innovation in business concepts and innovation in the use of IT to senior executives and IT management.
- The Consulting and SI Division is primarily concerned with the alignment of IT with business processes. This division contains a unit specialising in the telecommunications sector.
- The Systems Group focuses on U.S. Federal business particularly within the U.S. Department of Defence

- The Industry Services Division focuses on transaction processing opportunities primarily within healthcare and credit services.

Within CSC Europe, the European Business Development Group focuses on winning large outsourcing and SI contracts. Each major contract won, typically delivered across a range of countries, then becomes the responsibility of the Integrated Services Management Division. For example, the Ford contract involves service provision across 17 countries and the Lucas contract involves 30 countries.

The remaining national organisations primarily deliver consulting services and systems integration services across small to medium-sized contracts.

Stressing The Management, Rather Than The Replacement, Of Legacy Systems

Many organisations wish to use IT to more actively support the development of business opportunities. However, few organisations, and even fewer of those that adopt outsourcing, wish to significantly increase their IT expenditure.

Consequently it is not sufficient for organisations just to identify new ways of applying IT. In addition, they need to increase the productivity of their existing IT resources and assets.

CSC believes that this should typically be achieved not by replacing mainframe-based legacy systems but by managing them more

cost-effectively. These apparent cost savings can then be used to fund the development of new systems and improved IT infrastructure.

CSC promotes its contract with BAe as an example of this process. In particular, CSC rationalised BAe's existing IT infrastructure in the first year of the contract by:

- Reducing the number of data centres from 20 to 6, spread over four sites. Combined with use of new equipment, this has resulted in a 25-30% reduction in the cost of mainframe processing services.
- Consolidating 17 help desks into two regional customer services centres.
- Improved asset management including the closure of 1000 leases

These cost savings have enabled CSC to invest \$30 million in upgrading BAe's IT infrastructure, including:

- Installation of a new wide area network incorporating improved flexibility and forming a platform for EDI, E-mail, and Internet links to BAe's partners, suppliers and customers.
- Enhanced super computer capability including a capacity increase of 250%.
- Improvements in service delivery.

CSC has also begun to introduce best practice into the development of applications software, including the implementation of a software metrics process and a Rapid Application Development methodology.

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Vendor Profile

A Publication from INPUT's Outsourcing Information Systems Programme – Europe

1995

Cap Gemini Sogeti Increases Focus on Delivering Business Value

Cap Gemini Sogeti has since its acquisition of Hoskyns been one of the leaders in the European outsourcing market. Much of the organisation's outsourcing expertise has been derived from its U.K. arm, Hoskyns, which has been the market leader in outsourcing in the U.K. since the formation of the market.

However over the past two years, Cap Gemini Sogeti's, and Hoskyn's, leadership position in

Exhibit 1

the European outsourcing market has been increasingly threatened by leading U.S. vendors such as EDS and CSC. This increased competition combined with the slowdown in IT services growth in Europe has had a significant impact on Cap Gemini Sogeti's financial results in recent years. These results are listed in Exhibit 1.

Financial Results: Cap Gemini Sogeti

	1990	1991	1992	1993	1994
Revenue (\$m)	1718	1878	2225	2065	1906
Revenue Growth (%)		9.3	18.5	(7.2)	(7.7)
Net Income (\$m)	117	105	(13)	(80)	(18)
Net margin (%)	6.8	5.6	(0.6)	(3.9)	(0.9)
Revenue per person (\$000s)	104	104	103	99	100

Source: Cap Gemini Sogeti

Cap Gemini Sogeti is now modifying its strategy in the outsourcing market to improve its competitiveness. In particular, the company is:

- Placing more emphasis on an industry sector approach

- De-emphasising individual service offerings in favour of a more value-based approach
- Developing its business operations capability

Placing More Emphasis On An Industry Sector Approach

Cap Gemini Sogeti re-organised to emphasise industry focus rather than service focus at the beginning of 1993. This resulted in each of the company's Strategic Business Areas (SBAs) taking on a sector responsibility. At the same time, industry sector units were set up within each SBA.

The allocation of industry responsibility to the SBAs is listed in Exhibit 2.

The purpose of this allocation of industry responsibility to an individual SBA is to ensure that Cap Gemini Sogeti's industry-specific capability is communicated and shared throughout the group.

This industry sector focus has also been extended to the operations within each

country. For example, the organisation of Hoskyns in the U.K. is listed in Exhibit 3.

Exhibit 2

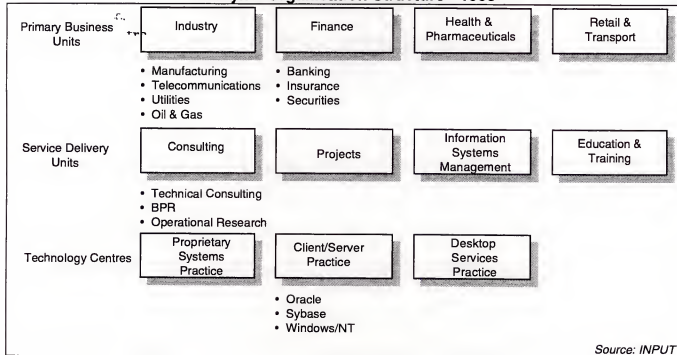
Industry Sector Responsibility

SBA	Sector(s)
United States	Process industries
United Kingdom	Finance
Nordic countries	Utilities
Benelux	Distribution & Logistics Travel, Transport & Tourism
Germany	Government & Public Services
Ile-de-France	Telecommunications & Media
French Regions, Austria, Switzerland, Italy, Spain	Manufacturing

Source: Cap Gemini Sogeti

Exhibit 3

Hoskyns: Organisation Structure - 1995



Source: INPUT

When Cap Gemini Sogeti initially established its industry sector organisation structure, two years ago, the service delivery units retained their own route to market. In addition, the financial results of each SBA were measured both by industry sector unit and by delivery unit. This resulted in conflicts of interest and prevented the new organisation from achieving full effectiveness.

Cap Gemini Sogeti has now adopted a strategy, similar to the one used by EDS, of allocating all revenues to the industry units and not to service delivery units. This, Cap Gemini Sogeti hope, will prevent conflicts of interest in the future and assist them in achieving a stronger industry sector focus.

De-Emphasising Individual Service Offerings In Favour Of A More Value-Based Approach

Cap Gemini Sogeti has a full-service outsourcing capability broadly similar in capability to that of EDS. However, the company has traditionally positioned its outsourcing offerings in a very different manner from that adopted by EDS.

EDS has stressed concepts such as the *Impact Gap* and has typically sought to take over the whole of the IT function within an organisation. On the other hand, Cap Gemini Sogeti has positioned itself under the banner "Total Respect", emphasising its determination never to infringe on its clients' freedom. In many cases this message will appeal to IT management faced with external challenges to their authority from vendors such as EDS.

However, there are dangers in this approach, namely:

- It tends to position the company as a provider of technical support rather than as a provider of business value
- It may over-focus on IT management rather than senior business executives

This approach was in the past complemented by Cap Gemini Sogeti's emphasis on the individual service lines within its outsourcing service portfolio such as:

- Central computing services
- Application management
- Distributed computing services

As a result the company has achieved a leadership position in application management for example, but has tended to sell its outsourcing services in an incremental manner.

This traditional approach to outsourcing is illustrated by the outsourcing contracts won by Hoskyns in the U.K. in 1995, which are listed in Exhibit 4.

Cap Gemini Sogeti now intends to change this positioning by de-emphasising the individual service components and stressing its ability to improve business processes.

The company's Operational Research unit is beginning to make a contribution to this goal by assisting Cap Gemini Sogeti in measuring the impact of IT on business processes.

Exhibit 4

Hoskyns: Outsourcing Contracts – 1995

Client	Contract Value (£m)	Contract Length (years)	Nature of contract
Bank of England	15	5	Operation of Crest Settlement System
British Gas	55	1.5	Run-down of mainframes
Coopers & Lybrand	7.2	3	Mainframe & 35 personnel
Hill Samuel			Manage run-down of systems supporting life assurance

Source: INPUT

Cap Gemini Sogeti is also concerned about the level of investment required to maintain a position at the forefront of desktop services outsourcing. The tools and infrastructure required for success in desktop services outsourcing necessitate competing with organisations such as IBM and Olivetti in building a global support infrastructure. In addition the nature of the tools and infrastructure required is evolving rapidly at the present time and clients are often seeking to outsource a problem at a highly competitive price.

Consequently at a time when EDS is beginning to offer desktop services outsourcing as an entity distinct from full-service outsourcing, Cap Gemini Sogeti is tending to concentrate on desktop services outsourcing only as a component of wider outsourcing contracts.

Developing Its Business Operations Capability

Finally Cap Gemini Sogeti's increased focus on business value is complemented by its move into business operations outsourcing.

In the U.K. Hoskyns has established a business process management centre in Livingston, Scotland manned by 40 personnel.

One of its initial contracts is a parking ticket service for the London Borough of Brent. In this case, Hoskyns provides a full service, including traffic wardens, and is paid according to the number of fines collected. Hoskyns uses techniques such as high-speed scanning to reengineer the processes involved in ticket services.

Cap Gemini Sogeti will increase its focus on business operations outsourcing in the near future, extending its activities to other business processes.

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Vendor Profile

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April 1995

Hewlett-Packard Consolidates Selective Outsourcing

Last year, Hewlett-Packard (HP) formally announced its Selective Outsourcing services portfolio in Europe. In the last year, the revenue from these services has roughly doubled. INPUT estimates that HP achieved outsourcing revenues of \$50 million in Europe in 1994.

HP is continuing to target distributed client/server environments seeking 3-5 year contracts.

So far, the majority of clients for HP's desktop services appear to have been motivated by the desire to guarantee consistent user desktop support. However, the challenge for HP, along with other vendors of desktop services, is to demonstrate that outsourced desktop services can also deliver cost reduction benefits.

HP is approaching this issue by:

- Ensuring that users adopt a common operating environment
- Continuing to automate the delivery of services
- Using partners to deliver services where appropriate.

Importance of a Common Operating Environment

The establishment of a common operating environment is one of the keys to improving the productivity of both users and IT support personnel. The common operating environment is unique to each client, but establishes a set of common standards that apply to groups of personnel with common requirements within the organisation.

In terms of user productivity, use of a common operating environment has a major impact on users' ability to access and share data within and between workgroups. This is becoming very important within geographically dispersed organisations.

Use of a common operating environment also reduces support costs by reducing the complexity of software installation, updates, administration and technical assistance.

In addition, the use of a common operating environment enables economies of scale to be applied to software purchase. For example, it may be possible to support 200 users by means of a 50 user licence installed on a common server, since typically only a minority of potential users will need to access the application simultaneously.

This approach can lead to a considerable reduction in licence costs compared to the purchase of individual copies of the software for each user.

In one of its early contracts in Europe, HP initially just took over help-desk support for an organisation with an extensive existing desktop infrastructure. Because HP did not conduct its own audit beforehand and a common operating environment had not been established, it was difficult for HP to provide an efficient support service. To address these issues, HP found it necessary to offer free consultancy to assist the company in establishing an appropriate common operating environment.

One of the problems faced by organisations seeking to implement a common operating environment is their lack of knowledge concerning the current desktop installed base. INPUT's research has shown that asset management tends to be inadequately performed in the majority of organisations in Europe.

In response to this problem, HP has introduced an Asset Management service in the U.S. where it currently has 6 clients. Within Europe, this service is currently being piloted in France and Germany. It is scheduled for launch in the U.K. in 3rd quarter 1995.

The asset management service consists of a number of optional components including:

- Software licence management
- Hardware and configuration management
- Contract management
- Utilisation management
- Financial management.

The key benefits of this service are its ability to assist organisations in cascading PCs throughout the organisation, reducing equipment expenditure, its ability to save money on software licensing, and its potential to protect organisations from claims of unauthorised software use.

Inventory tracking on the desktop remains a difficult area to fully automate. However, HP is using OpenView to track all network entities with an IP address, and is using a product called AssetView to store details of all known assets. AssetView stores details of over 200 data elements, stored against data categories such as software, hardware, configuration, maintenance, contracts, utilisation, financial and network configuration. For the software data category, for example, AssetView holds details covering:

- Type of software
- Version number
- Site licence
- Number of copies.

Automating Service Delivery

Exhibit 1 provides a breakdown of HP's Selective Outsourcing revenues in Europe for 1994.

Exhibit 1

HP Outsourcing Revenues: Europe

Outsourcing Environment	Revenues (\$m)	Proportion (%)
Datacentre	15	30
Transitioning to client/server	15	30
Client/server	20	40
Total	50	100

Source: INPUT

The proportion of revenues within its Selective Outsourcing services that HP derives from datacentre management is continuing to decline. In the datacentre environment, HP primarily manages its own HP3000 systems.

The focus of HP's outsourcing services are increasingly on Unix systems management and network management. The scope of the company's network management coverage is shown in Exhibit 2.

Exhibit 2

HP's Network Management Coverage

LAN Software	Network Protocols and Topology
NetWare Lan Manager NT	SNMP TCP/IP Ethernet Token Ring FDDI ATM Interworking Devices

Source: HP

While cost reduction has traditionally been relatively easy to deliver in the datacentre environment, it has been less easy to demonstrate in distributed desktop environments where vendors have typically needed to maintain a significant on-site presence. However, a number of vendors, including HP, have recently been making major investments in automating their service delivery mechanisms.

HP's remote management services are delivered over the same infrastructure used by HP's Worldwide Response Centres. In Europe, there are nodes in:

- Bristol, U.K.
- Dusseldorf, Germany
- Geneva
- Madrid
- Milan
- Paris
- Winnersh, U.K.

HP has implemented processes and a standard platform at the global level to ensure the company's ability to provide common support to multinationals

on a transnational basis. While transnational outsourcing contracts are rare at present, it is increasingly likely that large organisations will seek a common supplier to support their distributed client/server and desktop infrastructures across a wide geographic area.

HP's systems management delivery model can be divided into three elements:

- Event management
- Optimisation management
- Operations management.

Event management covers both reactive and proactive functions. While much of the event management is reactive and monitors network failures, event management also proactively measures items such as network utilisation and disk space, enabling preventative action to be taken before a system failure results. HP can remotely perform scheduling, fault isolation and verification, and multiple event correlation. HP also uses intelligent agents, for example initiating a disk clean-up utility, to eliminate some of the need for human intervention.

To assist in network optimisation, HP logs all events for client reporting purposes. HP's remote management services provides the client with up to 26 standard reports plus ad hoc and custom reporting as appropriate.

The Operations Management area still requires significant human intervention, but the operator is automatically provided with process guidelines for assistance.

The remote network management service is based around OpenView, which is well-suited to monitoring routers and servers. At present, HP is not remotely managing client workstations for its customers, but is running internal pilots to develop this capability.

Examples of HP's current selective outsourcing contracts are listed in Exhibit 3.

Exhibit 3

Examples of Selective Outsourcing Contracts

Client	Problem	Services Provided
European food manufacturer (Italy)	Lacked expertise to migrate to SAP R/3 Need to reduce IT costs	System & network management for HP3000 & Unix environment Leasing services Staff acquisition
Paper manufacturer (Germany)	Need to migrate to SAP R/3 Did not want to invest in own IT specialists	Implementation of Unix environment Server and network management
Engineering Consulting Company (Norway)	Need to improve employee productivity Refocus IT department	Designed & implemented common operating environment Fixed price desktop services Financing & technology refresh
Investment Bank (U.K)	Refocus IT department Need to improve user productivity	Desktop services
European telecommunications manufacturer	Need to supplement IT resources Cash required for investments	Desktop services including procurement, staging & installation, PC application help-desk, network & system management, finance for LAN environment
Distribution company (Netherlands)	Need to improve user productivity Need to reduce IT costs	Staging, distribution, installation, maintenance, help-desk, asset tracking, client/server management
Aerospace manufacturer (U.K.)	Need to increase employee productivity	System management for SUN, Digital & HP equipment Desktop services including maintenance, help-desk, & asset management

Source: HP

Widespread Use of Partners

HP's overall client/server management offerings are listed in Exhibit 4.

HP's positioning remains based on a supportive approach to organisations' existing IT personnel. Accordingly the company assists its clients in selectively choosing those service elements appropriate to its present situation.

HP's clients within the organisation tend to be a combination of the board and IT management. HP

tends not to sell to user departmental management. The involvement of the board is important because it is difficult for vendors to provide real benefit unless they can establish acceptance for the development of a common operating environment.

HP wishes to act as the prime contractor in the delivery of its selective outsourcing services. However, the company needs to partner extensively to deliver its services. In particular, the company perceives that it has a strong need for partners in the areas highlighted in Exhibit 5.

Exhibit 4

HP's Client/Server Management Offerings

Planning	Implementing	Managing	Co-ordinating
Platform planning/design	Migration	Asset management	Project management
Financial planning	Network implementation	Moves, adds, changes	Call management
Technology refresh	Procurement	Usage and problem resolution assistance	Information/management reporting
	Integration	User training	On-going management
	Installation (including staging)	LAN/Server management	
	Financing	Client management	
		Electronic software distribution	
		Maintenance services	
		Disposition	

Source: HP

HP's Perception of Need for Partners

Consulting and planning	Product sourcing	Project management	Network integration
Staging and distribution	Installation	Migration	User training
Call management	Usage assistance	Maintenance	Moves, adds, changes
LAN management	Client management	Asset management	Leasing & disposal

Source: HP

HP is very dependent on local vendors for providing the manpower to enable installation moves. This is a very significant activity.

HP estimates that typically between 15% and 35% of a customer's environment is in a state of constant flux. Furthermore, HP would only expect to project manage activities such as the installation of cabling in initial implementations.

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Vendor Profile

A Publication from INPUT's Outsourcing Information Systems Programme – Europe

April 1995

Axime – Positioned for Business Operations in the Financial Services Sector

The financial services sector in Europe has been very conservative in its use of outsourcing. Much of the outsourcing that has taken place so far has been concentrated around the maintenance of legacy applications or support for the desktop environment.

However, the banking sector in France is facing considerable pressure to improve its financial performance. This will encourage banking institutions to reconsider outsourcing, and potentially creates opportunities for vendors to increase their involvement in the running of back-office systems.

Axime is potentially well placed to take advantage of this opportunity, since the company:

- Has a broad portfolio of services which are supportive of the financial services sector
- Has the potential to convert its processing services and IS outsourcing services into business operations services for the financial services community.

Broad Portfolio for the Financial Services Sector

A summary of Axime's recent financial results is listed in Exhibit 1.

Exhibit 1

Axime: Financial Results

	1991	1992	1993	1994
Revenue (FFm)	1,905	2,163	1,899	1,835
Operating profit (FFm)	(7)	89	150	170
Net profit (FFm)	(33)	(82)	32	85

Source: Axime

Over the past two years, Axime has focused on improving its profitability rather than its revenue growth. However, the company expects to increase its revenues to over FF2 billion for the financial year ending June 1995.

Exhibit 2 provides a breakdown of Axime's revenues by industry sector.

The financial services sector still accounts for over half of Axime's revenues.

The company remains organised into three major divisions as shown in Exhibit 3.

Exhibit 2

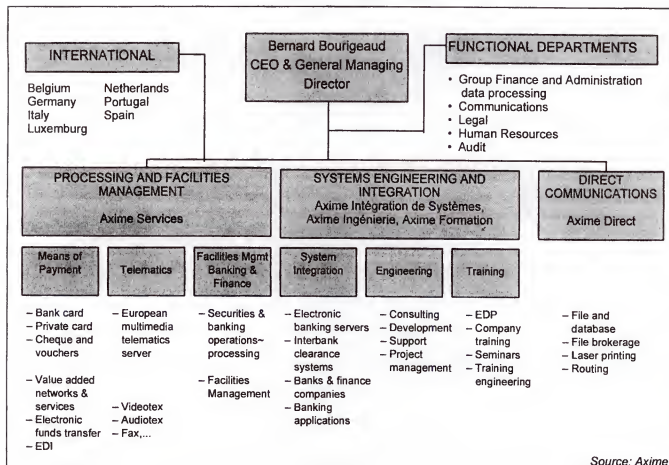
Revenues by Industry Sector

Sector	1994 Revenues (FFm)	Proportion (%)
Financial services	1,030	56
Media	200	11
Distribution	200	11
Transportation	75	4
Manufacturing, government & business services	330	18
Total	1,835	100

Source: Axime

Exhibit 3

Axime: Organisation Structure



Source: Axime

Exhibit 4

Revenues by Activity

Activity	1994 Revenues (FFm)	Proportion (%)
Processing & Facilities Management	1,004	55
Systems engineering and integration	514	28
Direct communication	317	17
Total	1,835	100

Source: Axime

Overall, Axime has a broad range of services applicable to the financial services sector ranging from direct marketing, through systems integration to electronic funds transfer and the processing of securities. This range of services enables Axime to offer financial services organisations a wide range of outsourcing operations and positions the company to take over business operations functions such as credit management in addition to platform and application operations services.

Axime Intégration de Systèmes focuses on four areas that are applicable to the financial services sector:

- Securities trading rooms
- Electronic funds transfer systems
- Banking software
- Interapplications communication management software.

For example, Axime has signed an exclusive licensing agreement with California-based Infinity Financial Technology to distribute its middle- and back-office trading room products in France, Belgium and Luxembourg.

Axime Direct aims to provide full-service direct marketing capability. The unit has recently formed a Statistics and Modelling unit to complement its existing services in database management and fulfilment, mail production, and consulting and list brokerage.

Converting Processing Services into Business Operations Services

Axime Services focuses on information processing and network services. The division's technical resources include:

- 800 MIPS of processing capability
- 500 Transpac lines
- 8000 videotex access points
- 2,500 audiotex lines.

Axime Services information processing revenues are broken down by platform in Exhibit 5.

Exhibit 5

Axime Services: Information Processing Revenue by Platform

Platform	1994 Revenues (FFm)	Proportion (%)
IBM mainframe	637	80
Unix-based	147	18
IBM AS/400	10	1
Other	10	1
Total	804	100

Source: Axime

A comparatively high proportion of the organisation's information processing services revenues are derived from Unix-based equipment. This is partly because of the increasing proportion of systems operations revenues on this platform and also because much of Axime's telematics service uses HP Unix-based platforms.

Axime Services is divided into three operating units:

- Telematics
- Means of Payment
- Facilities Management and Securities and Banking Processing.

A breakdown of Axime Services' revenues according to these units are shown in Exhibit 6.

Exhibit 6

Axime Services: Revenue by Activity

Activity	1994 Revenues (FFm)	Proportion (%)
Telematics	374	37
Means of Payment Processing	269	27
Facilities Management	183	18
Securities Processing	178	18
Total	1,004	100

Source: Axime

Axime views telematics as a major growth opportunity and the company's revenues from this activity grew by 30% in fiscal 93/94.

Axime's telematics services offer information providers the means to make their information widely accessible over private networks or the public Transpac network. Axime places considerable emphasis on developing the

multimedia capability of its telematics services. Its telematics services cover audiotex, videotex and fax, and in 1994 the service achieved 12 million hours of connection time.

The current information providers for these services include a wide range of media such as newspapers and TV channels, and also financial institutions.

Axime is endeavouring to develop its Telematics services internationally and has developed audiotex services in Belgium, the Netherlands, Germany and Italy.

Within its means of payment activities, Axime processed 350 million bank card transactions in 1994. For example, Axime developed, installed and operates Visa's CIBLE information system in France. CIBLE acts as a clearing house for international settlements and performed 70 million transactions in 1993.

In addition, Axime signed major contracts for cheque processing with the Paris public transport system (RATP) and with the oil companies Total and Shell.

These means of payment services are complemented by the following processing services for use by financial institutions:

- The TITAN services for securities back-office processing
- The ATLAS service for processing of banking operations.

The level of activity for each of these services is listed in Exhibit 7.

Exhibit 7

Securities and Banking Processing

	Securities Processing	Banking Processing
Accounts processed	1.3 million	400,000
Orders/entries per month	430,000	2 million
Volume of custody	FF600 Bn	

Source: Axime

Axime's overall information processing revenues are listed broken down by industry sector and service type in Exhibits 8 and 9.

Exhibit 8

Axime Services: Information Processing Revenue by Industry Sector

Sector	1994 Revenues (FFm)	Proportion (%)
Financial Services	462	58
Manufacturing and distribution	110	14
Government	22	3
Other	210	26
Total	804	100

Source: Axime

Exhibit 9

Axime Services: Information Processing Revenue by Service Type

Platform	1994 Revenues (FFm)	Proportion (%)
Processing Services	495	61
Application operations	199	25
Platform operations	110	14
Total	804	100

Source: Axime

Axime's current outsourcing contracts in the financial services sector include:

- Platform operations contracts with several leading French banks
- The management of the information systems for subsidiaries of one of the leading French banks
- The running of a mainframe (60 MIPS) for a rear office operator (800,000 stock accounts and more than 14,000 users).

Axime Services endeavours to present Axime's full range of capability to potential outsourcing clients, not just Axime Services' information processing capabilities.

Overall, Axime is well placed to offer a range of outsourcing services to the financial services sector, ranging from transition outsourcing, through the development and operation of new information systems, to business operations of back-office functions. In addition, the company through the activities of Axime Direct is well-positioned to assist financial institutions in their marketing activities.

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- Competitive positioning
- Acquisition targets

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- Systems plans
- Peer position

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Vendor Profile

A Publication from INPUT's Outsourcing Information Systems Programme – Europe

April 1995

Siemens-Nixdorf Creates New Company to Strengthen Outsourcing Capability

Sietec Consulting, a business unit within Siemens Nixdorf Informationssysteme (SNI), has offered outsourcing services for approximately 18 months. However, Sietec Consulting's principal focus, in the past, has been on generating systems integration contracts through management and IT consulting. Only very recently has SNI, through Sietec Consulting, committed to tackling outsourcing as a strategic core business.

SNI has taken this move in response to the recognition that outsourcing is now a key option for clients contemplating the implementation of new systems and is an increasingly common response from organisations evaluating major business, or IT, reengineering.

To develop further its presence in the outsourcing market, SNI is:

- Forming a new company by merging Siemens' data centres and corporate network with Sietec Consulting
- Leveraging its SAP outsourcing experience

- Taking a European approach to the market.

Formation of New Company

The merger of Siemens' data centres and corporate network with those of Sietec Consulting considerably increases the scale of SNI's outsourcing capability, for example:

- Sietec Consulting's total revenues for 1994 were approximately DM100 million. The new company will have start-up revenues of approximately \$800 million, including, overwhelmingly, the organisation's captive revenues
- Sietec Consulting previously employed approximately 200 personnel. The new company will employ approximately 1,700 personnel
- The new company will manage resources including 3,000 MIPS, 8,000 Gigabytes, and 70,000 terminals and personal computers.

Over the past two years, Siemens has been concentrating its internal datacentres. So far, the number of data centres has been reduced from approximately 70 to 15. It is likely that the number of data centres serving Siemens will be further reduced down to two or three.

However, Sietec Consulting recognises that the physical proximity of data centres is still a key issue for many potential clients.

Accordingly, Sietec will maintain a larger number of data centres to serve external customers. At present, Sietec Consulting has data centres serving the external market located in:

- Hamburg
- Frankfurt
- Berlin
- Bochum.

Leveraging Siemens' Experience in Migrating from SAP R/2 to R/3

Currently, Sietec Consulting estimates that it has 21 external customers of its outsourcing services, including:

- Krupp Hoesch Stahl
- AMC/AEG
- Spardabank
- Deutsche Direktbank
- Lincas.

The new company will offer a comprehensive range of outsourcing services, including:

- Datacentre management covering the operation of mainframes and open systems platforms

- Transitional outsourcing combining operational management with consulting and support for the planning and implementation of new corporate IT infrastructures
- Application management for complex systems solutions, combined, where appropriate, with business operations outsourcing.

At present, the majority of Sietec Consulting's outsourcing revenues are derived from transitional datacentre management. In the future, SNI will be targeting organisations undertaking the transition from SAP R/2 to R/3. Siemens have been undertaking such transitions internally on an international basis, which should prove a sound basis for entering the external market with such services.

In addition, Sietec Consulting has experience in providing a 24-hour service for the management of Automatic Teller Machine (ATM) networks on behalf of financial institutions.

Adopting a European Approach to the Market

Although SNI's current outsourcing activities are concentrated in Germany, the company is seeking to adopt a European approach to the market. This necessitates the establishment of regional data centres throughout Europe. Initially, SNI is likely to complement its own internal data centres with temporary partnerships while the company establishes its presence in a particular region.

In order to target multinational customers, SNI needs to establish a wide geographic outsourcing capability beyond Europe. The company is believed to have entered discussions with a number of U.S.-based outsourcing vendors in order to establish

partnerships giving SNI access to outsourcing capability within the U.S. to complement its own European presence.

Sietec Consulting perceives that the worldwide corporate network of Siemens will be a major asset in offering outsourcing services as organisations migrate to more distributed IT infrastructures.

SNI is a comparatively late entrant into the European outsourcing market and has lagged behind the other major equipment vendors such as IBM and Groupe Bull in integrating its internal IT operations into its outsourcing operation. Nevertheless the Siemens Group has a particularly extensive IT infrastructure which should enable SNI to become a major force in data centre management in Europe.

In particular, this move should enable SNI to pose a major challenge to debis, EDS and IBM Systeme und Netze in the management of both mainframe datacentres and more distributed IT infrastructures on behalf of German multinationals.

The new company can be expected to be a major force in assisting companies with Siemens datacentres in introducing more client/server oriented IT architectures.

In addition, SNI's ambitions lie beyond infrastructure management. Sietec Consulting has been active in developing its business consulting capability in support of systems integration projects. It is probable that the new SNI outsourcing subsidiary will endeavour to develop a strong focus on the applications operations segment of the market.

Furthermore, SNI has recruited a general manager from Perot Systems to manage its new outsourcing entity. With this background, it is probable that the new manager will wish to emphasise SNI's reengineering capabilities rather than develop a datacentre management focus.

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Vendor Profile

A Publication from INPUT's Outsourcing Information Systems Programme – Europe

May 1995

SHL Systemhouse Services Support Transformational Outsourcing

In recent years, the involvement of outsourcing vendors in assisting organisations to re-orient their use of information technology has steadily grown. Initially, the involvement of the outsourcing vendor was essentially limited to managing existing legacy systems, thereby freeing in-house IT personnel to concentrate on the implementation of new systems and new architectures.

However, as the typical new infrastructure has changed from standalone departmental, or business unit systems to strongly integrated client/server architectures, so the need for external assistance has grown. At present, outsourcing vendors are much more likely to become involved in the design, implementation and management of the new infrastructure than was the case two years ago.

SHL Systemhouse is one of the leading vendors in North America in assisting organisations to achieve such transitions, and has developed the phrase *transformational outsourcing* to describe the process of assisting clients in migrating their applications to client/server architecture.

The services that support this process are available either individually, or in combination, and include:

- Mainframe outsourcing and legacy system support

- Client/Server consulting and development
- Client/Server systems management
- Network systems management.

Mainframe Outsourcing and Legacy System Support

SHL Systemhouse has four divisions operating on a worldwide basis:

- Systems Outsourcing and Operation Services
- Systems Integration and Consulting, covering client/server application development
- Learning Technologies, covering education and training
- Technology Solutions, providing desktop systems and services.

Within its worldwide Systems Outsourcing and Operation Services organisation, SHL Systemhouse has six major outsourcing centres. The London datacentre is based on the acquisition of AST Trans-Act in 1993. AST Trans-Act was formerly owned by the Royal Bank of Canada and offered outsourcing services primarily to the banking and finance sector.

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U BARRY

Exhibit 1

European Outsourcing Contracts: SHL Systemhouse

Client	Scope of Service	Value (\$m)
Royal Bank of Canada	Datacentre management, applications maintenance and development	22
Westpac Banking Corporation	Datacentre management and technical support	5
RAC	Datacentre and network management	5
CIBC Mortgages	Datacentre management and technical support	3
ABN Amro Bank N.V.	Datacentre and network management	1.5
European Postal Organisation	Networked systems management	-

Source: INPUT

Examples of contracts held by this organisation in Europe are listed in Exhibit 1.

The contract with ABN Amro Bank is a typical transition outsourcing contract. SHL Systemhouse took over the ownership, operation and maintenance of existing equipment and software applications, while the bank concentrated on building the operating platform and applications for the replacement systems. The services provided by SHL Systemhouse included the provision of IBM mainframe and AS/400 based services together with management of the bank's U.K. wide area network.

To avoid clients becoming locked-in to paying for services on their existing mainframes, SHL Systemhouse offers a guaranteed decline in charges for mainframe use as applications are migrated onto client/server architecture.

Client/Server Consulting and Development

Worldwide, SHL Systemhouse has extensive experience in client/server consulting and

development. The company's Strategic Technology Units specialise in client technology, server technology, communications and systems development environments.

SHL Systemhouse has developed its own client/server development methodology called SHL Transform which is now available for use by the company's clients as well as by internal SHL personnel. SHL Transform is an object-oriented knowledge base containing SHL's experience in the methodologies and technologies of business transformation. In particular, it includes:

- Details of methodologies, practices and techniques
- An integrated workbench of project management and delivery tools
- On-line, multimedia based training
- Project references and metrics.

Within Europe, SHL Systemhouse has assisted a number of organisations in defining the client/server architecture for their organisation and in developing and implementing client/server based systems.

The company's European client base includes United Nations, Baring Asset Management, KLM, SEGA Europe, BBC, AnPost, WPP, Mercury and the RAC.

For example, SHL Systemhouse has assisted Barings Asset Management in designing and implementing a client/server architecture based around Hewlett-Packard servers and workstations. Subsequently SHL Systemhouse assisted Barings with the development of new applications to run on this infrastructure.

Worldwide, SHL Systemhouse focuses on a number of key sectors, including postal agencies, telecommunications, energy, government and manufacturing. In Europe, the company's focus also includes the postal and telecommunications sectors, but additionally includes financial services institutions and the distribution sector. In this context, distribution covers transportation, retail and wholesale distribution.

SHL Systemhouse is a particularly strong player in the postal sector. The company was the prime contractor for the United States Postal Services' automated Comprehensive Tracking and Tracing (CTT), a project valued at \$270 million.

Within Europe, SHL Systemhouse was one of the original members of the Computer Aided Post in Europe (CAPE) project; an EU financed initiative to improve mail delivery between EU members. In addition, SHL Systemhouse has designed and developed International Mail Systems to automate the processes involved in the import and export of postal products on behalf of both the national postal administration of the Republic of Ireland and Correios de Portugal.

SHL's Systems Integration and Consulting unit is supported by the company's Learning Technologies and Technology Solutions divisions.

SHL Systemhouse has approximately 150 full-time training personnel in the U.K. and offers both publicly scheduled courses and training in support of specific IS projects. In addition to implementation and technical training, SHL Systemhouse can provide training in support of change management programmes, covering topics such as:

- Business process reengineering
- Personnel motivation
- Benefits measurement.

The Technology solutions division operates its own Product Services Centre in the U.K.. This centre has achieved BS5750 accreditation for the procurement, configuration, test and delivery of microcomputer systems and application software.

The Product Services Centre configures most systems prior to shipment, including the installation of operating systems, application software and networking environments to defined standards. The Product Services Centre also manages the sourcing and procurement of equipment and software in support of customers and major projects.

Client/Server Systems Management

Once a client/server based infrastructure has been implemented, many organisations discover that day-to-day operation and management of the client/server, or desktop environment is significantly more challenging than managing the centralised mainframe environment.

To address this, SHL Systemhouse has developed a range of client/server systems management services. These range from providing specific support services to providing a complete systems management service.

The individual services offered by SHL Systemhouse include:

- Facilities assessment services, including performance, capacity and skills assessments
- Process management services
- LAN capacity and performance reviews
- Network operational assurance reviews
- Network design and specification services
- Project management services
- Installation and upgrade services
- LAN administration
- TeleCare services, providing a single point of contact and unlimited calls for application support, priced on a user by user basis
- Customer reporting services
- LAN recovery services
- Asset management services
- LAN preventative maintenance services

- Network infrastructure services, including cabling consultation, design and implementation

- Maintenance services.

Network Systems Management

SHL Systemhouse provides a complete client/server systems management service through its Network Operations Centres. These centres enable SHL Systemhouse to remotely monitor each node on a client's network, providing 24-hour cover. This monitoring enables SHL Systemhouse to identify throughput and capacity problems at an early stage and take corrective action. Problems are logged and monitored through to resolution using a trouble-ticketing system from Remedy Corporation, and user support is co-ordinated through the help-desk.

SHL Systemhouse is targeting those organisations with more than 500 mid-range and personal computers attached to LANs which are implementing LAN-based mission critical systems.

In addition to providing outsourced desktop services, SHL Systemhouse will supply the products and expertise to assist clients in establishing their own network operations centres. Current clients include Postel and a major European Postal Agency.

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Vendor Profile

A Publication from INPUT's Outsourcing Information Systems Programme – Europe

December 1994

Andersen Consulting (UK) Aims to Grow Business Process Management at Over 30% Per Annum

Andersen Consulting has exhibited comparatively low levels of activity in the UK outsourcing market over the last two years.

Indeed the company's number of outsourcing contracts has declined over this period from approximately 45 at year-end 1992 to 35 at year-end 1994. This decline has been caused by the run-down of some of Andersen's earlier outsourcing contracts and a highly selective approach to targeting new outsourcing business.

A large proportion of Andersen's outsourcing contracts have traditionally derived from two relationships. Andersen's activities with the DRG Group initially accounted for 12 outsourcing contracts and the organisation's relationship with Yorkshire Health Authority accounted for approximately 20 contracts.

At the present time, the number of outsourcing contracts with the DRG Group has been reduced to one, and though Andersen currently retains 15 contracts with district health authorities within the Yorkshire Region, this figure is likely to continue to decline.

In the future, Andersen Consulting expects to concentrate on a small number of large outsourcing contracts. The company appears to be disinterested in pursuing medium-sized outsourcing contracts, particularly where these have a strong datacentre orientation.

However, Andersen Consulting has set high growth targets for its outsourcing business. The organisation expects to achieve these by:

- Targeting business operations contracts
- Establishing Solution Engineering Centres to improve system build productivity.

Targeting Business Operations Contracts

Andersen Consulting in the UK is aiming to build its business in the medium term around consulting and Business Process Management.

Exhibit 1 shows the organisation's revenue targets.

Exhibit 1

Andersen Consulting (UK) Growth Targets

Practice	1994 Revenues (£m)	2000 Revenues (£m)	CAGR (%)
Consulting	250	300	4
Business Process Management	65	300	36
Total	315	600	14

Source: INPUT

These targets imply considerable growth in the organisation's business process management revenues. Andersen Consulting defines Business Process Management as a professional partnership in which Andersen consulting assumes responsibility for reengineering and managing business processes in a long-term contract. Andersen uses the term Business Process Management to include both IS outsourcing and business operations outsourcing i.e. the outsourcing of non-IT functions.

By the year 2000, Andersen Consulting expects to achieve a revenue mix of approximately equal proportions between IS outsourcing and business operations outsourcing.

The present revenue breakdown of Andersen Consulting's outsourcing activities is shown in Exhibit 2.

Exhibit 2

Breakdown of Business Process Management Revenues, 1994

Category	Revenues (£m)	Proportion (%)
IT-related	50	75
Business operations	15	25
Total	65	100

Source: Andersen Consulting

Exhibit 3 shows the scope of Business Process Management activities currently targeted by Andersen Consulting in the UK and the mechanisms by which Andersen Consulting perceives service delivery can be achieved.

Exhibit 3

Scope & Mechanisms for Business Process Management

Scope of Activity	Mechanism
Computer & network services Applications management	Own resources
Accounting Logistics Human resources Customer services Procurement Marketing Merchandising	Transfer of client resources (outsourcing) Enterprise model

Source: Andersen Consulting

Andersen Consulting is targeting a wide range of non-IT business functions. However, so far, the organisation has been successful in establishing contracts in two of these activities, namely:

- Accounting
- Logistics.

Andersen Consulting has established itself as a supplier of accounting services to companies operating in the North Sea oil sector. The organisation currently has four contracts to supply accounting services to companies operating in the North Sea, including BP Exploration, Sun Oil, and ASCo.

The contract with BP Exploration is valued at £55 million and involved the transfer of 310 accounting personnel to Andersen Consulting.

The business activities performed by Andersen Consulting include:

- Processing and paying approximately 12,000 invoices per month
- Management of bank accounts
- Production of monthly and quarterly management reports and identification of variances
- Production of statutory accounts.

However, Andersen Consulting has so far been unable to extend its outsourcing of accounts departments beyond its specialised niche based around the North Sea oil fields. In particular, the company appears to have decided not to compete for local authority business. Nonetheless, it is likely that Andersen Consulting wishes to extend the scope of its accounting service considerably in the private sector.

Another promising opportunity is the management of the logistics function. Andersen Consulting (UK) has currently a single contract in this area.

Andersen Consulting perceives that a Business Process Management arrangement can be achieved by a number of routes. In addition to transferring existing resources from the client (the traditional outsourcing approach), Andersen Consulting can create a solution for a single client from its own resources or build an *enterprise model*. An *enterprise model* is a non-client specific reengineering of a business process that can be marketed to a range of clients.

One example of this approach is the work that Andersen Consulting has undertaken in the US related to airline passenger revenue accounting. In the US, Andersen Consulting estimates that it processes approximately 50% of all airline lifts to produce comprehensive ticket audits and enable airlines to monitor the prices at which their seats are being sold by external agencies.

Support for this activity is marketed by Andersen Consulting as either a system for the airline's own use or a business process performed by Andersen consulting.

Andersen Consulting would like to apply this style of approach in the UK to activities such as logistics.

Establishing Solution Engineering Centres

Exhibit 4 lists examples of Andersen Consulting's current IT outsourcing contracts in the UK.

Examples of IT Outsourcing Contracts

Client	Contract Value (£m)	Contract Year	Contract Length (Years)
London Stock Exchange	50	1992	5
Yorkshire RHA	15	1990	5
Thames Water		1990	5

Source: INPUT

While Andersen Consulting (UK) has in the past taken on the run down of existing systems in conjunction with major systems integration projects, the organisation's emphasis is essentially on reengineering processes and on taking over the management of reengineered systems or processes. For example, Andersen Consulting is bidding for Crest, the Talisman replacement at the London Stock Exchange.

Two of the keys to the provision and management of reengineered IS systems are distributed systems management capability and system build productivity. So far, Andersen Consulting's approach to distributed systems management is largely based around on-site, and customer-specific support.

However, Andersen Consulting is actively developing Solution Engineering Centres to improve system build productivity. So far, Andersen have established one Solution Engineering Centre in the US and one in the UK.

Each Solution Engineering Centre is based around a standard technical environment, for example Informix, and aims to create reusable objects that are applicable to a range of clients. In this way, Andersen Consulting aims to generate a tenfold improvement in build productivity.

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Vendor Profile

A Publication from INPUT's Outsourcing Information Systems Programme – Europe

December 1994

INFONET Aims to be A Leader in Globally Managed Communications Services

Many organisations are now finding that their current wide area networks are inadequate to support their future IT infrastructures. In particular, they are often ill-equipped to facilitate LAN to LAN connections and frequently incapable of handling the transmission of images, voice and data on a person to person basis.

Infonet is endeavouring to address needs such as these.

Infonet is an international communication services company emphasising integrated data services, connectivity, internetworking, custom solutions and end-to-end support. Infonet's primary goal is to be a leader in providing globally managed communications services combining data, voice, video, image, and fax to the world's leading transnational corporations.

Within Europe, the company's clients include:

- FAG Kugelfischer in Germany
- Nestlé in Switzerland

- Kredietbank in Belgium.

The company is owned by a number of leading telecommunications vendors as listed in Exhibit 1.

MCI sold its 25% share holding as a consequence of its joint venture with BT, earlier in 1994.

Infonet estimates that it now serves more than 10,000 user sites in more than 140 countries and is basing its future development upon:

- Its principal services aimed at multinationals: Enterprise Communication Services and the World Network
- Development of strategic partnerships.

In addition, the company has announced its intention to offer international frame relay-based services.

Exhibit 1

Ownership of Infonet

Organisation	Proportion of equity (%)
Transpac (France Télécom)	21.6
Deutsche Bundespost Telekom	21.6
Belgacom (Belgium)	7.2
Netherlands' PTT Telecom	7.2
Singapore Telecom International	7.2
Telia International (Sweden)	7.2
Swiss PTT	7.2
Telstra Corporation (Australia)	7.2
Telefonica Internacional (Spain)	7.2
Kokusai Denshin Denwa Co. (Japan)	6.8
Total	100

*Source: INPUT***Enterprise Communication Services and the World Network**

Enterprise Communication Services (ECS) is intended to be a single source of global communications services combining comprehensive network outsourcing, integrated services — voice, data, image, fax, and video — and custom network application solutions.

Infonet's ECS is made up of the following service components:

- Enterprise Defined Network Services (EDNS)
- Enterprise Defined Messaging Services (EDMS).

Within EDNS, Infonet will plan, design, implement, maintain and manage or co-manage global hybrid and private wide area network solutions. If required, Infonet will act as the desktop to desktop systems integrator during the implementation phase.

EDNS are tailored to the client's requirement, and Infonet can take responsibility for the implementation and/or management of all, or part of, an organisation's wide area network.

EDMS is designed to assist organisations in integrating their various messaging systems. Through EDMS, Infonet claims to provide the network, software and integration support to connect mainframe, mid-range, LAN and personal computer based messaging applications into a singular, globally managed network.

Infonet also offers management of customer-owned store-and-forward message facilities, as well as providing the equipment and software for these platforms.

Through its World Network service, Infonet provides:

- International connectivity services
- International LAN-to-WAN services
- Packaged messaging services.

The World Network service is targeted primarily at multinational organisations primarily seeking to purchase data transmission services.

Infonet offers organisations a range of managed network services, covering:

- Public data network services
- Virtual private data network services.

Within its virtual private data network services, Infonet offers fixed cost solutions

covering mesh, star and point-to-point topologies with speeds up to 64 Kbps.

INFOLAN is an internationally managed LAN-to-WAN internetworking service. INFOLAN can be used to connect geographically dispersed LANs over a wide area network using native LAN/WAN protocols such as TCP/IP Source Route Bridging, Novell NetWare, and DECnet.

In addition, Infonet offers its INFOLAN Switched Access Service. This Infonet dial IP service is aimed at meeting the needs of multinationals that want to extend access to their main TCP/IP networks to remote branch offices, homeworkers, members of mobile sales forces, customers and suppliers on a low volume basis.

Development of Strategic Partnerships

Infonet has strategic partnerships with:

- Microsoft
- Cisco Systems
- Semaphore Communications Corporation.

Microsoft is developing a desktop system management technology, based on NT, to perform centralised, automated software

distribution and installation and maintain an inventory of all equipment and software. Infonet intends to integrate this system management technology with its own services enabling multinational organisations to receive their personal computer software and distribute throughout their organisation via Infonet's wide area network services.

In addition, Infonet intends to integrate Microsoft's system management product with its PerspeXion network management product. This will facilitate real-time monitoring enabling desktop software usage and configuration status throughout the organisation to be monitored from the same display used to monitor the Infonet wide area network.

Infonet uses Cisco routers for its INFOLAN backbone network and also installs Cisco routers on client premises as required. Cisco uses INFOLAN to connect its European sales offices in London, Brussels, Stockholm, and Paris to its manufacturing plant in Menlo Park, California.

Infonet has also come to an agreement internationally with Semaphore Communications Corporation to implement Semaphore's Network Security System units for clients requiring a high level of security in their use of Infonet's INFOLAN service.

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- Competitive positioning
- Acquisition targets

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- Systems plans
- Peer position

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Company Profile

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December 1994

IBM Global Network Targets International LAN/WAN Management

The rapid rate of adoption by organisations of distributed client/server architectures and the current swift rate of change in wide area network technology is considerably enhancing the opportunities for vendors in the arena of wide area networking. IBM has responded with the launch of the IBM Global Network.

The IBM Global Network (IGN) is intended to offer international, one-stop shopping for networking and associated technology services. The IGN will offer:

- Network outsourcing, defined by IBM to include custom managed networks and network integration services
- Value added services, including access to messaging services and information providers
- Electronic marketplace solutions
- A technologically advanced approach incorporating ATM.

In particular, the service will offer:

- Wide international coverage
- Support for a wide range of protocols
- Seamless WAN/LAN management services
- The promise of ATM technology
- Access to Internet information providers.

Wide International Coverage

IBM estimates that the IGN covers more than 650 cities across 90 countries, and is supported by more than 7,000 professionals.

Within the UK, the IGN has 32 access points and is supported by approximately 700 professionals. The European network management centre is housed in Portsmouth and this centre is backed up by IBM's data centres in Warwick and Havant. The number of access points currently available to the IGN is summarised by region in Exhibit 1.

Exhibit 1

IGN: Number of Access Points by Region

Region	SNA Access Points	Multiple Protocol Network Access Points
Europe, Middle East and Africa	219	111
The Americas	331	153
Asia Pacific	83	9

Source: IBM

Within the US, IBM currently has 278 access points to the IGN.

Within Europe, the countries with more than five nodes are listed in Exhibit 2.

Exhibit 2

IGN: Access Points in Europe

Country	Number of Access Points
Germany	60
UK	31
Italy	18
Norway	15
Spain	11
Austria	10
France	10
Belgium	9
Switzerland	9
Netherlands	7

Source: IBM

The comparatively high number of nodes within Germany is related to the nature of the tariff structure there.

Clients of the IBM Global Network include:

- Duracell
- A Danish shipping company
- Amro Bank
- A US based electronics company.

For the shipping company, IBM implemented a network within 90 days, providing access between:

- The headquarters in Copenhagen
- AS/400s in Chile, the Netherlands, New Zealand, Scotland, and the US
- Nine LANs spread over the Far East, Europe and the Americas.

For the electronics manufacturer, IBM has a four-year agreement to provide:

- Voice between the US and three other countries
- Intra-company E-Mail and EDI
- Transmission of engineering drawings.

The company's operations include activities in 10 European countries, 21 countries in the Asia Pacific region, and 3 countries in Latin America.

Support for A Wide Range of Protocols

The IBM network is based on a number of continental networks interconnected by an international backbone network. The base network technology consists of NET IDNX multiplexers, IBM 3745s LANs, protocol

converters and multi-protocol routers, supplemented by gateways to the public carriers.

Within this framework, IBM supports a range of protocols to enable clients to gradually migrate from the legacy protocols of SNA and X.25 in favour of frame relay and ATM. The network architecture allows for inter-network connectivity between the SNA, X.25, Frame Relay and router-based networks.

The SNA network, called the Managed Network Service (MNS), provides connectivity to over 50 countries and is being expanded into Eastern Europe and South America, where line quality is too poor to support more advanced protocols. The SNA architecture provides network management capability down to device level. Typical speeds supported are in the range 9.6Kbps to 64Kbps.

The IBM Multi-Protocol Network (MPN) facilitates the inter-connectivity of multi-vendor systems and LANs across wide area networks. LAN protocols supported include: NetBios, Novell IPX, AppleTalk, DECnet, TCP/IP, and SNA. The MPN is based upon multi-protocol LAN routers with optional frame relay interfaces.

IBM provides links between its LANs for BPB Paper and Packaging Ltd.. Ultimately the IBM Global Network will interconnect 27 UK sites, together with locations in the Netherlands, France and Germany.

Seamless WAN/LAN Management Services

IBM is also intending to offer seamless WAN/LAN management services, by co-operation between IGN and ISSC.

For wide area network remote control and configuration, IBM intends to use the following tools:

- Netview 390/6000
- Infoman
- CDIM
- Nways Switch Manager.

IBM expects to integrate WAN and LAN management for some clients. Within its LAN management service, IBM includes the following components:

- Media management
- User support
- LAN administration
- Software distribution
- Resource management
- Performance management
- Back-up management
- Asset management.

The Promise of ATM Technology

The IBM Global Network currently has approximately 150 NET IDNX multiplexers installed across its European backbone network. IBM plans to replace most of these with ATM switches during 1995-1997. By June 1995, IBM intends to have 40 cities supported by ATM.

The implementation of ATM is critical to IBM's plans to support multimedia transmission between LANs over the IBM Global Network. However, the ATM switches in Europe will initially communicate using existing two megabit per second circuits. IBM will upgrade to higher speeds later.

The move to ATM will also enable IBM to integrate voice with data and video. In the

INPUT Company Profile

meantime, IBM will carry separate voice traffic over the existing NET backbone, by which means the company claims to be able to offer considerable savings to customers.

IBM estimates that the company will invest approximately \$350 million in the network over the next three years.

Access to Internet Information Providers.

In addition to providing better communication within an organisation and between the organisation and its customers and suppliers, IBM also recognises the increasing requirement to access information providers via the Internet.

Accordingly, IBM intends to offer open Internet access services, including:

- Dial (Warp +) and leased line access, initially in the US only
- Worldwide Internet services for mail, news, telnet, gopher, and Mosaic
- Support for Internet servers (MX, POP, News, gopher, and web)
- CIX member and multiple Internet connects
- NAP and international connectivity.

IBM regards it as very important that the European business community is provided with direct access to Internet within Europe.

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Company Profile

A Publication from INPUT's Outsourcing Information Systems Programme – Europe

December 1994

EDS Technical Products Division begins to Build European Desktop Services Infrastructure

TPD estimates that the organisation has revenues of \$1 billion Worldwide. However, the European proportion of these revenues is currently only a small proportion of these approximately \$100 million.

Very little of these European revenues are accounted for by desktop services outsourcing. Nonetheless, TPD is ambitious to develop its desktop services presence in Europe.

In September 1993, EDS launched its Technical Products Division (TPD) in Europe. TPD has adopted a very different strategy compared to many of the other services vendors entering the desktop services market. For example, Cap Gemini Sogeti is strongly targeting value-added service offerings, and does not believe it is necessary to be a major dealer in desktop equipment. On the other hand, TPD initially concentrated on building up its product supply and logistics capability and is only now beginning to develop a centralised capability to manage clients' LANs and desktop devices.

However, EDS has ambitious goals for its desktop services business in Europe and will endeavour to meet these goals by:

- Offering a full range of desktop services on an international basis
- Knowledge transfer from the US
- Offering an imaginative range of financing options to clients.

Offering A Full Range of Desktop Services on an International Basis

TPD is intending to offer a full range of desktop services in Europe. However, the organisation has so far been slow to build up the necessary infrastructure for service management in Europe. Instead, the company has initially concentrated on product supply and logistics. TPD decided that the organisation needed to become a major equipment vendor in its own right to develop cost leverage in purchasing and shipping.

TPD endeavours to maximise its logistics efficiency by using a centralised warehouse

facility in the Netherlands, supported by an especially developed real-time Automated Distribution system.

TPD provides logistics services on behalf of Memorex Telex and the Tandem Source Company. Memorex Telex recently signed a five-year logistics management contract with TPD within which TPD will provide Memorex Telex with final assembly of its personal computers in addition to order management services. In return, Memorex Telex will provide TPD with logistical support and freight management services. On behalf of Tandem, TPD will provide a range of logistics services including procurement, vendor management, inventory services and distribution.

TPD wants to offer purchasing consultancy services in Europe. In the US TPD handles purchasing for General Electric by issuing a catalogue of approved products to GE business units.

At present, TPD's equipment partners in Europe include Hewlett-Packard, AST and Compaq, and TPD has been successful in establishing pan-European level agreements with these vendors.

TPD is offering pre-installation services from its warehouse in Beek the Netherlands. Here TPD will pre-configure the equipment and tailor it to the client's requirements installing all software required prior to delivery to the client's site.

TPD will typically not become involved in systems integration projects. These will remain the responsibility of EDS' client/server integration group.

In the US, TPD has a field services division employing approximately 2,000 field engineers. TPD is not currently intending to replicate this organisation in Europe and will predominantly rely on third party agreements. However, TPD has inherited a

small group of 40-50 maintenance engineers in the UK as a result of its acquisition of SD-Scicon.

One of TPD's major activities so far has been to assist organisations such as London Underground and a major French bank with the relocation of their desktop equipment to new premises. For the French bank, this service was combined with a simultaneous refurbishment of all the desktop devices.

Knowledge Transfer from the US

However, TPD has yet to establish any centralised infrastructure in Europe to support its distributed service management.

Although EDS estimates that it supports 30-40 customer specific help-desks; these are largely installed on customer premises at present. Similarly TPD currently has no centralised means of remote LAN management for customers in Europe.

However, TPD is intending to change this situation over the next twelve months utilising TPD's experience in the US. TPD Europe currently has between 10 and 20 personnel on secondment from the US to assist the European organisation in achieving knowledge transfer. TPD strongly believes that it should model the development of TPD in Europe using the same business model as was applied in the US. As a result, TPD Europe is about to begin building centralised help-desks to support its European clients. These help-desks will be sited initially in France, Germany, and the UK with a fourth help-desk supporting the rest of Europe from Antwerp.

TPD has developed its own suite of programmes to remotely manage LANs down to the individual personal computer level. However, this technology is not currently used in Europe. Despite this, TPD claims to have a total methodology for distributed

service management, which will be applied to the company's European activities in the future.

In the US, Hughes Space and Communications Company has signed a five-year Distributed Systems Management outsourcing contract with EDS, covering the organisation's LAN-based computing environment including 4,000 desktop devices. All of Hughes' support personnel have been transferred to EDS. Services provided by TPD include:

- User help-desk support
- LAN management and administration
- Equipment maintenance
- Installation and technical support for all equipment and software
- Equipment and software purchasing
- New technology standard setting and assessment
- Asset management
- Redeployment of desktop assets at the end of their useful life.

In Michigan, TPD has built an operations centre that manages in excess of 40,000 personal computers.

Offering an Imaginative Range of Financing Options to Clients

TPD intends to offer a very flexible range of equipment financing options to clients, including:

- The customer purchasing the equipment
- TPD leasing equipment to the client
- TPD charging the client a service fee that includes equipment supply.

TPD believes it can reduce the cost of ownership of equipment to the client if it retains ownership. For example, TPD will assign categories of equipment to match staff requirements. The equipment can then be cycled through these categories avoiding the need for comprehensive replacement of the equipment base on each technology refreshment exercise. Obviously all necessary refurbishment and reconfiguration would be carried out on each occasion.

EDS owns the equipment used within its London Underground contract.

TPD is continuing to target major corporations and believes it has a competitive advantage in its ability to offer pan-European desktop services while maintaining a single point of client contact.

TPD offers the IT manager the means to regain control of desktop spending by applying standards and single point invoicing.

The majority of TPD's sales leads are generated by the industry-facing SBU's within EDS. TPD is principally a service provider to these account teams. However, TPD maintains its own sales expertise to assist the major account teams in offering distributed systems management services and is also trying to use its unique skills to introduce new clients to EDS.

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Company Profile

A Publication from INPUT's Outsourcing Information Systems Programme – Europe

December 1994

Genix Group Targets the UK

During the course of 1994, the major US outsourcing vendors, EDS and CSC, have firmly established their presence in the UK. These companies are now expanding their presence in Europe.

EDS is already well established in France, Germany and Scandinavia in addition to the UK and is developing its outsourcing activities in Italy.

CSC has so far penetrated the European market less widely and is currently trying to develop its presence in Germany.

However, following EDS, CSC, SHL Systemhouse and IBM ISSC, a new wave of North American outsourcing vendors is beginning to target the European market. One example of this trend is the arrival of Genix in the UK. Genix is positioned very differently to EDS and CSC. In particular, the company is:

- A traditional data centre outsourcing company
- Dependent on the manufacturing sector
- Moving into the UK market by targeting desktop services outsourcing in the financial services sector.

Dependent on Data Centre Outsourcing

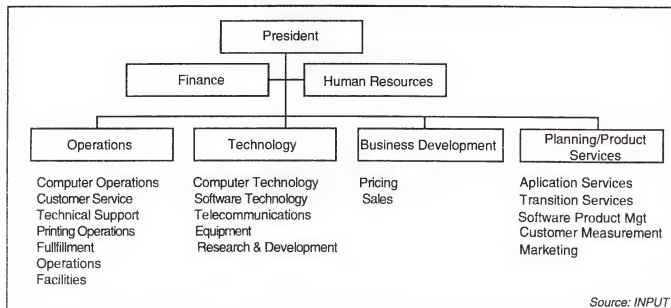
Genix is owned by MCN Corporation, a \$1.4 billion Detroit-based corporation. The Genix Group was formed in 1990 with the consolidation of the computer operations business of Genix Corporation and the computer operations, electronic printing, fulfilment and telecommunications services of MCN Computer Services, Inc.

For the year ending December 1993, Genix achieved revenues of \$74 million. In 1993, the whole of the company's non-captive outsourcing revenues of \$57 million were obtained in the US.

Approximately 95% of Genix's 1993 revenue was derived from outsourcing services with 80% of that revenue derived from platform operation outsourcing contracts.

Exhibit 1

The Genix Group Organisation Structure



Genix customers are served by four operations groups and by technology support groups for telecommunications, software and technical support, desktop support and applications management services.

Customer Operations is focused in three centres: Dearborn, Michigan; Charlotte, North Carolina; and Pittsburgh, Pennsylvania. The organisational structure of the company is shown in Exhibit 1. The general managers operate their respective facilities and carry total responsibility for customer satisfaction. They rely on the support groups to provide specific design and implementation services.

Genix's outsourcing contracts generally range from three to seven years and are typically priced on the basis of information system resource utilisation.

In addition to their recently expanded 70,000 square foot headquarters in Dearborn (Michigan), Genix has an 80,000 square foot computing facility in Pittsburgh (Pennsylvania) and a 40,500 square foot

warehouse/distribution/fulfilment facility in Southgate (Michigan).

A third computing facility of 40,000 square feet was established in Charlotte, North Carolina in July, 1994 under an extended term contract with Royal Insurance.

Genix markets their services through a direct sales force located in Dearborn, Pittsburgh, Fairfield (Connecticut) and Chicago.

In addition, to its platform operations services, Genix has engineered, implemented and now manages wide area networks for many of its customers. Genix is also increasingly beginning to offer LAN management and desktop support services.

Principally Active in the Manufacturing Sector

A breakdown of Genix's non-captive outsourcing revenues by industry is shown in Exhibit 2.

Exhibit 2

Outsourcing Revenues by Industry, 1993

Industry Sector	Revenues (\$m)	Proportion (%)
Process manufacturing	26	46
Discrete manufacturing	24	42
Financial services	5	8
Other	2	4
Total	57	100

Source: INPUT

Manufacturing industries served include food processing, steel, chemical, plumbing fixtures, air conditioning, automotive components, glass, publishing, and tobacco. The most significant industry served is the steel industry. Copperweld, Allegheny Ludlum, Wheeling-Pittsburgh Steel and Armco AMD are clients.

In the services sector, Genix has clients in the financial services, insurance, health care and transportation companies.

Genix also serves the needs of software developers, educational institutions and state governments.

During 1993, Genix added more than ten companies to their client list, increasing their client list to more than 100, including 15 Fortune 500 industrial corporations.

Some of Genix's recent key contracts are as follows:

- In July 1994, Genix announced an outsourcing contract with Royal Insurance of Charlotte, North Carolina. In this

agreement, Genix will provide systems operations management, network management for Royal's voice and data networks, and manage Royal's electronic printing service. In addition, Genix is leasing Royal's data centre so that Genix can provide outsourcing services to other firms using this facility.

- In mid-1993, The Trane Company signed a three-year, \$14 million contract. Genix provides computer operations services to Trane's Tyler and LaCrosse divisions. Genix also provides processing services to Trane's parent company, American Standard.
- In the second quarter of 1993, Borden awarded Genix a 5½ year contract for all of Borden's US mainframe systems operations requirements. This contract is valued at over \$12 million.
- In 1993, Genix signed a five-year \$14.5 million contract with United Technologies Automotive (UTA) to provide computer operations management, electronic printing and microfiche. Disaster recovery services are covered under a third-party agreement.
- In 1993, Genix also signed a contract with Community College of Philadelphia to provide computer operations management.

Targeting Desktop Services Outsourcing in UK Financial Services Sector

In July 1994, Genix announced a contract extension with Comshare Inc. to manage their international desktop environments as well as Comshare's international data network. The Genix outsourcing agreement with Comshare also includes mainframe services for an additional three years.

This contract is the basis of Genix's move into Europe. In July, Genix formed the Genix Group Limited in London to provide desktop,

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LAN and client/server services from a 6,000 square foot facility.

Genix is initially expected to focus on selling desktop and client/server management services into financial institutions. The company lacks the coverage to effectively market desktop services more widely in either the UK or Europe in general. In addition, the company appears to lack the critical mass to establish itself as a major player in systems operations in the UK.

In the US, Genix is experiencing a surge of activity around client/server migrations and the resultant transition outsourcing demand. Currently, approximately 20% of the company's contracts involve transition outsourcing and this percentage is projected to increase. However, the transition outsourcing market is well-established in the UK with a number of established players. As a result, Genix may have difficulty in penetrating this market unless it enters into agreements or joint ventures with established vendors.

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A Publication from INPUT's Outsourcing Information Systems Programme – Europe

December 1994

MDIS Focusing on Public Sector Outsourcing

Many of the leading outsourcing vendors in the UK are targeting one or more segments in the public sector. In particular:

- Sema Group, EDS and Hoskyns are especially active in central government
- CFM, Capita Group, ITnet, Athesa and ACT Managed Services are especially active in local government
- AT&T Istel has historically targeted the health sector
- Data Sciences is active in both local and central government.

In addition, McDonnell Information Systems (MDIS) targets a wide range of segments in the public sector. The company is seeking to expand its presence in the outsourcing market by:

- Maintaining its traditional public sector focus
- Targeting desktop services.

Maintaining its Traditional Public Sector Focus

Exhibit 1 shows the organisational structure of MDIS.

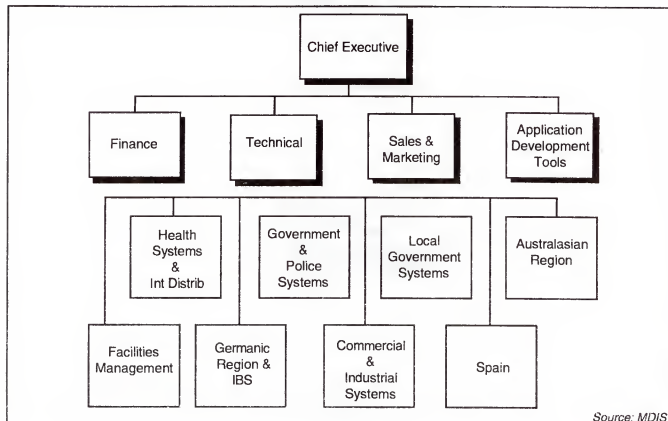
Although the company is establishing operations in Germany, Spain and Australia, at present over 90% of MDIS' revenues are derived from its UK-based operations.

The company has a strong background in developing applications for the public sector and the company has separate business units targeting:

- Health
- Central government and police
- Local government.

Exhibit 1

MDIS: Organisation Structure



The company's revenues are shown broken down by market sector in Exhibit 2.

Exhibit 2

Revenue Breakdown by Sector, 1993

Sector	Revenues (£m)	Proportion (%)
Public	71	62
Commercial & industrial	30	26
Financial	10	9
Application development tools	3	3
Total	115	100

Source: INPUT

Exhibit 3

Application Portfolio

Sector	Applications
Police	Police personnel administration Command & control Crime administration Major incidents
Libraries	Library administration
Local government	Revenue Financial management Competitive tendering Housing management
Health	Hospital information support

Source: INPUT

MDIS has traditionally been committed to high levels of investment in applications software products for its key markets.

This is particularly true in the public sector where MDIS has developed the range of applications listed in Exhibit 3.

MDIS entered 1994 with a future contracted value of £13 million in its outsourcing business.

Details of the company's principal outsourcing contracts are listed in Exhibit 4.

Exhibit 4

Outsourcing Contracts

Client	Contract Value £m	Contract Award Date
Motherwell District Council		
Clwyd Health Authority		1989
St. Mary's Hospitals, Paddington	5.0	1992
Delyn Borough Council	3.2	1993
Devon & Cornwall Police	5.6	1993
East Anglia RHA	2	1993
Credit Lyonnais	1.3	1994

Source: INPUT

The majority of these contracts are in the public sector. While competition is at its most severe in the local government sector, MDIS is at its strongest in the police and health sectors.

The health sector has been a difficult market for outsourcing vendors with comparatively

high levels of dissatisfaction expressed by outsourcing clients. One of the principal difficulties has been in assisting the health service in transforming from a centralised IT infrastructure based around regional systems to a decentralised structure based on advanced hospital information support systems (HISS).

MDIS has a strong background in developing applications for the health sector and has developed its own HISS. This should assist the company in obtaining additional outsourcing contracts within the health sector.

MDIS has implemented its HISS for:

- Clwyd
- Darlington Health Authority
- St. Mary's Hospital, Paddington
- East Anglia RHA.

Targeting Desktop Services

MDIS' revenue history is shown in Exhibit 5.

Exhibit 5

Financial History

	1993	1992
Revenues (£m)	115	117
Revenue growth (%)	(2)	
Profit before tax	16.2	15.5
Margin (%)	14.0	13.2

Source: INPUT

The company's revenues have declined in recent years because of the decline in revenues arising from its proprietary equipment base.

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The range of platforms currently managed by MDIS includes:

- Unix based systems
- IBM AS/400
- IBM RS/6000
- Digital
- NCR.

The company is at a disadvantage in pursuing large outsourcing contracts since the company lacks any true mainframe data centre capability. Accordingly, the company is best placed to manage decentralised systems on behalf of organisations such as individual hospitals and police forces rather than taking over centralised legacy systems for example, from regional health authorities.

In addition, the company is best placed to take on the management of newly implemented systems rather than legacy systems. Correspondingly, the company is developing

its desktop services capability. The company's help desks are managed on a 24-hour basis to ensure support for critical systems in the health and police services.

MDIS' desktop services offering includes:

- Development and implementation of desktop IT strategy
- Help desk
- Management and support of desktop equipment
- Management and support of LANs
- Management and support of desktop software.

MDIS has 18 service centres throughout the UK that are used to service the company's own customers and also perform an element of third party maintenance.

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Company Profile

A Publication from INPUT's Outsourcing Information Systems Programme – Europe

December 1994

Cap Gemini Sogeti — Greater Integration of Development and Systems Management

Until early 1994, Cap Gemini Sogeti was primarily organised into service streams which drew strong demarcation lines between its systems management and systems integration offerings.

However, the company has now moved towards an industry sector focused approach, and shows a greater tendency to discuss the client's potential systems development and systems management needs concurrently.

Cap Gemini Sogeti claims that it has now developed a comprehensive, integrated portfolio of service offerings built around the following six key principles:

- Mapping of the client's business needs
- Respect for the client's freedom
- Client-driven links with Gemini Consulting
- A human-centred approach to systems development and management
- Industrialised delivery processes

- Service management systematically based on service level agreements.

This portfolio consists of the following clusters of services:

- Applications management and central computing services
- Business consulting services
- Client/server project services
- Distributed computing services.

Applications Management and Central Computing Services

Cap Gemini Sogeti's Central Computing Services offering consists of the company's long established data centre management offering. Traditionally, the major proportion of revenues from this service have been derived from assisting organisations in the migration away from legacy systems.

In recent years, Cap Gemini Sogeti has strengthened this offering by formalising the support for legacy applications. In particular, the company strengthened its ability to manage the rundown of legacy applications, regardless of whether or not the company was additionally managing the rundown of any associated mainframes or data centres.

At present, approximately 30% of Cap Gemini Sogeti's application management revenues are derived from situations where the company is involved in legacy system divestment but is not responsible for the operation of any associated equipment. Contracts of this type are typically for one or two discrete systems or suites of programmes.

These contracts are also comparatively short and of low value. They are typically of around two years duration and valued at approximately \$400K.

The principal motivation remains to release customer staff for new development activities. However, Cap Gemini Sogeti are beginning to find that clients are now prepared to outsource the ongoing maintenance of comparatively core systems in addition to legacy systems being phased out by the client.

However, approximately 80% of Cap Gemini Sogeti's application maintenance management activity is still associated with proprietary, rather than open systems, architectures.

At the same time, application development is increasing in importance within Cap Gemini Sogeti's application management service. Cap Gemini Sogeti perceives that Chief Financial Officers (CFOs) want to achieve the maximum return on their existing investments. Overall, despite the presence of Gemini Consulting within the group, the emphasis within Cap Gemini Sogeti's current service portfolio is evolutionary rather than revolutionary and supportive of the client's right to be highly selective in terms of the

functions, platforms and scope of applications outsourced. This strongly differentiates the company from the more acquisitive outsourcing approaches of some of the leading US outsourcing vendors, who now form the company's most serious competitors.

Business Consulting Services

In 1994, Cap Gemini Sogeti expects Gemini Consulting to achieve revenues of approximately \$500 million. However, the company still feels it has some way to go in establishing a high level of synergy between the management consulting activities of Gemini Consulting and the IT related activities of Cap Gemini Sogeti.

Nonetheless, Gemini Consulting is an important factor in establishing Cap Gemini Sogeti's competence to participate in business reengineering projects.

Client/Server Project Services

Some of the most noticeable changes in the company's approach in the last year have been in its methodology for project services.

Here the company has had to adapt to the architectural changes in the marketplace, and reskill its technicians for client/server based systems development. This reskilling is a major undertaking which is still underway.

In addition, the company has significantly changed its whole philosophy and approach to systems development. Cap Gemini Sogeti now emphasises:

- A human centred approach to business solutions
- Rapid, incremental design, development and deployment of systems
- Integration with best of breed products.

Cap Gemini Sogeti has recognised that clients no longer require lengthy custom projects bounded by bureaucratic and incomprehensible procedures. Because of the rapid pace of business and business process change, the value to the client now lies in vendor flexibility and early delivery of appropriate, but not over-complex, functionality. As a result, Cap Gemini Sogeti now emphasises the value of short, incremental, industrialised developments achieved through:

- Time boxing
- Quick hits
- Systematic re-use of code, whether from the client, a third party, or Cap Gemini Sogeti
- An industrialised development process.

Cap Gemini Sogeti is endeavouring to build a framework for all its activities under the PERFORM umbrella.

In addition, Cap Gemini Sogeti is now stressing the importance of human-centred systems development. Human-centred systems development recognises the importance of strong user involvement throughout a project and uses techniques such as prototyping and rapid application development.

In particular, Cap Gemini Sogeti recognises that interpretability is a key factor in many applications being developed within the client/server environment. As a result, the server based systems will be longer term and driven by business strategy. In contrast, the client based systems will:

- Be highly transient
- Depend on ergonomic user interfaces
- Provide the means for interpretability and multiple views of the same information
- Ultimately require access to multimedia documents
- Be more concerned with access to information and presentation of information than processing of information.

Accordingly, systems will increasingly need to be developed, based on how people use information rather than on back-office processing of information, and this is a very volatile development environment needing considerable user involvement.

Cap Gemini Sogeti's development objectives are now that:

- The duration of development is cut by a factor from 2 to 100+
- All developments have good, permanent visibility to their users within the client organisation.

As a result the company's future projects are intended to be fit for purpose, fit for use, open and interoperable, flexible and scaleable.

Distributed Computing Services

The final element in Cap Gemini Sogeti's service portfolio is the company's Distributed Computing Services offering.

Cap Gemini Sogeti estimates that during 1994, more than 50 clients will transfer responsibility for management of their distributed systems to Cap Gemini Sogeti in contracts with a total value approaching \$200 million. In late 1994, Cap Gemini Sogeti estimated that the company managed on behalf of clients a minimum of:

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- 150 IBM AS/400
- 250 Digital VAX
- 100 Hewlett-Packard and Unix processors
- 150,000 desktop devices
- 500 LANs.

Cap Gemini Sogeti's Distributed Computing Services clients include:

- Total Petroleum
- Bristol Water
- S-Group
- Inex Partners
- Aerospatiale
- FFV Aerotech
- Jacobson & Widmark
- CGE Distribution.

Some of the services provided by Cap Gemini Sogeti to individual clients are listed in Exhibit 1.

Exhibit 1

Contract Examples

Client	Services Provided
FFV Aerotech	Consolidated IT service DCS service to 500 users Management of 20 Vax & Sun computers & 400 desktops AM service for operational systems
S-Group	Consolidation of IT staff transfer Management of: 12 IBM AS/400 ICL Unix servers 1500 desktop devices 2000 POS devices Coverage of 100 sites
Jacobson & Widmark	Phased introduction of DCS Operational support for Digital systems and 500 desktop devices
Inex Partners	30 IT staff transferred Management of: 4 HP 3000 200 desktops 650 terminals

Source: INPUT

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May 1994

ITnet—Achieving Growth through Outsourcing

In the recent past, a number of large company IS departments have begun to offer their services externally. Many of these organizations have viewed the outsourcing market as a major new opportunity.

Not all of these organizations have achieved the success they sought. Even though the European outsourcing market is growing rapidly, it remains very competitive.

ITnet, however, has achieved an average annual growth rate of 28% since its formation in 1987. Much of this growth has been derived from the organization's outsourcing activities. ITnet's revenue growth over the last six years is shown in Exhibit 1.

Only £1 m of the company's 1993 revenues were derived from the project service sector, the remainder coming from outsourcing services.

Exhibit 1

ITnet Revenues, 1988-1993

Year	Revenues (£m)	Growth (%)
1988	13	18
1989	19.5	50
1990	26.6	36
1991	30.3	14
1992	34.3	13
1993	44	28

Source: ITnet

The bulk of ITnet's outsourcing revenues in 1993 were derived from platform operations.

However ITnet is developing its services to target major new growth opportunities including:

- Distributed systems outsourcing
- Managed services in U.K. local government.

In addition, ITnet may develop partnerships with other outsourcing vendors to increase its ability to meet client need for international outsourcing services.

Developing Distributed Systems Outsourcing Services

A breakdown of ITnet's outsourcing revenues by service type is provided in Exhibit 2, and a breakdown of number of customers by service type in Exhibit 3

Exhibit 2

ITnet Outsourcing Revenue Breakdown by Service Type, 1993

Service	Revenues (£m)
Platform Operations	28
Desktop Services	3.5
Application Management	9
Business Operations (Managed Services)	2.5
Total	43

Source: ITnet

Exhibit 3

Number of Customers by Service Type ITnet, January 1994

Service Type	Numbers of Clients
Datacentre Services Applications Management	21
Distributed Systems Services	5
Managed Services	17
Total	29

Source: ITnet

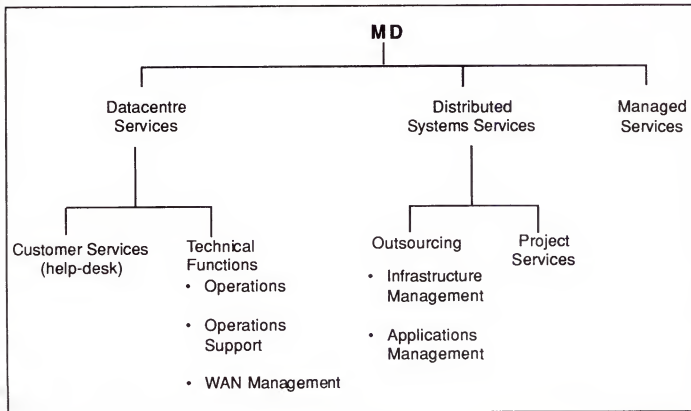
The majority of ITnet's outsourcing clients use the company's platform operations and application management services. New platform operations contracts were signed with the following clients in 1993:

- The Cheese Company (formerly Express Foods Ltd)
- Hertfordshire County Council
- Prudential Assurance Co. Ltd
- Premier Brands
- Sterling Health
- Westminster City Council

ITnet has a well-established application management capability and lies in fifth place in the U.K. application management market behind Hoskyns, FI Group, Sema Group, and Andersen Consulting. Overall ITnet is finding that application management is becoming an increasingly important component of outsourcing contracts, as organizations focus on migrating from their legacy systems to client/server architectures.

ITnet has had an embryonic desktop services capability for a number of years. However, the company is now placing much more emphasis on the need to migrate clients between IT architectures and is strengthening its distributed systems outsourcing capability by creating an organizational structure that places greater emphasis on distributed systems services. The new structure is shown in Exhibit 4.

Exhibit 4

ITnet Organization Structure, 1994

Source: INPUT

This re-organization will divide ITnet's operational capabilities into three principal areas: datacentre services, distributed systems services, and managed services.

Initially, ITnet may develop separate help-desks for each of datacentre and distributed systems support, though these help-desks are likely to merge in the long-term. ITnet is currently enhancing its ability to remotely manage equipment connected to LANs through its three regional support centres based in Birmingham, Hertfordshire, and Westminster (London).

Examples of clients for whom ITnet manages distributed systems environments include Hertfordshire

County Council and Westminster City Council.

Targeting Managed Services in Local Government

Exhibit 5 provides a breakdown of ITnet's revenues by industry sector. At present, if ITnet's revenues from its parent Cadbury Schweppes are excluded approximately 75% of the company's outsourcing revenues are derived from the public sector.

Exhibit 5

**ITnet
Outsourcing Revenues by Sector, 1993**

Sector	Revenues (£m)
Local Government	22.5
Commercial	21.5
- Cadbury Schweppes	15
- Other	6.5
Total	44

Source: INPUT

ITnet does not have a background in sales to central government and so is tending to focus on local government and former local government entities such as schools and colleges that now need to manage their own budgets. ITnet has a number of specialist applications designed for use by these institutions.

ITnet perceives that in order to maintain its market share in local government, the company will need to maintain growth of 25% per annum.

While much of ITnet's growth is expected to come from increased IT outsourcing activity as a result of the implementation of Compulsory Competitive Tendering, ITnet is also developing its capability to provide *managed services* to local government. Managed Services is the term used within U.K. local government for business operations. ITnet already has a number of managed services clients including Hertfordshire County Council, Westminster City Council, and the London Borough of Brent. In addition, ITnet has a number of schools and colleges that utilise its payroll managed service.

At present, ITnet is concentrating on managed financial services covering areas such as payroll, pensions administration, exchequer services. ITnet has recently introduced revenue collection services.

At present ITnet does not offer business operations services to the commercial sector but may enter this market when once business operations becomes well-established there.

However, ITnet is aiming to increase its revenues in the commercial sector substantially. ITnet doubled its non-Cadbury Schweppes revenues in 1993, and intends to grow its commercial sector revenues significantly in 1994. ITnet will be principally targeting migration services for medium to large organizations i.e., those organizations which will yield contracts worth £1 - 10 million per annum.

While recognizing the importance of price in the decision process, ITnet perceives that its culture will assist it in winning new business.

Cadbury Schweppes has a philanthropic tradition, and ITnet's culture makes it comparatively sensitive to human resources issues. This is a desirable attribute in negotiating contracts with the public sector, but may be viewed as less important by some organizations in the commercial sector.

In addition, ITnet's customer service organization has achieved BS5750/TickIT certification and, in 1993, the company won Computing magazine's "Best Outsourcing Company Award for Excellence".

Developing International Partnerships

ITnet does not have any operations capability outside the U.K.. However, the company is potentially interested in establishing partnerships with culturally compatible outsourcing vendors to facilitate access to multinational outsourcing contracts.

For example in 1993, Comdisco was awarded a world-wide outsourcing contract by Sterling Health. Lacking any U.K. operations capability, Comdisco subcontracted the U.K. operations to ITnet.

As organizations increasingly outsource on a multinational basis, ITnet would like to participate in this market by establishing suitable partnerships.

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CUSTOM PROJECTS

For Vendors—analyze:

- **Market strategies and tactics**
- **Product/service opportunities**
- **Customer satisfaction levels**
- **Competitive positioning**
- **Acquisition targets**

For Buyers—evaluate:

- **Specific vendor capabilities**
- **Outsourcing options**
- **Systems plans**
- **Peer position**

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Company Profile

A Publication from INPUT's Outsourcing Information Systems Programme – Europe

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Axime—Providing Processing Services to the Financial Services Sector

Many vendors seek to acquire ownership and control of the IT activities of their clients. Axime's emphasis, however, is on the sale of transaction based processing services. Axime's challenge is to increase its share of such markets during the current downturn in the French economy. Axime's revenues fell in 1993, as shown in Exhibit 1.

Exhibit 1

Axime: Financial

	1991	1992	1993
Revenue (FFm)	1,905	2,163	1,899
Operating Profit	(7)	89	150
Net Profit	(33)	(82)	32

Source: INPUT

Axime's revenues are shown analysed by industry sector and service type in Exhibits 2 and 3.

Exhibit 2

**Axime
1993 Revenues by Industry Sector**

Sector	Revenues (FFm)	Proportion (%)
Financial Services	1,070	56
Government, Industry & Business Services	350	18
Distribution	200	11
Media	200	11
Transport	80	4
Total	1,900	100

Source: INPUT

Exhibit 3

1993 Revenue Breakdown by Service Type

Service	Revenues FFm	Proportion (%)
Processing Services & Outsourcing	1100	58
Professional Services & Systems Integration	500	26
Direct Communication Marketing	300	16
Total	1900	100

Source: INPUT

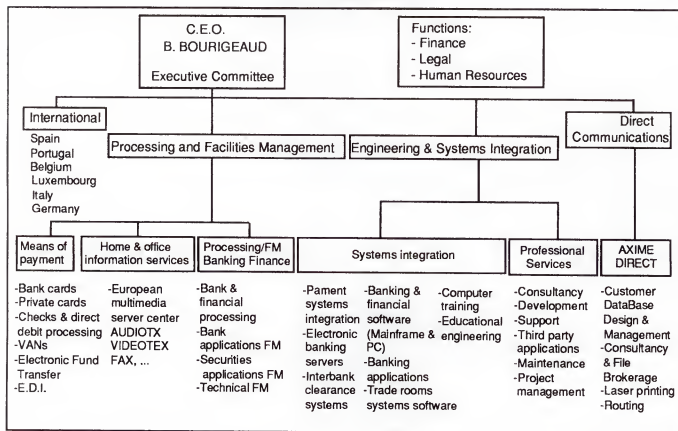
The overall emphasis of Axime's service offerings is on developing its processing services activities and its presence within the financial services sector. The current organization chart for Axime is shown in Exhibit 4, and a more detailed revenue breakdown of the company's processing services and outsourcing activities are shown in Exhibit 5.

Axime is now focusing on developing its processing services and outsourcing activities in three areas namely:

- Means of payment
- Bank and financial processing
- Home and office information services.

Exhibit 4

Axime Organization



Source: AXIME

Exhibit 5

1992 Outsourcing and Processing Services Revenue Breakdown

Service Element	Revenues (FFm)	Proportion (%)
Electronic Funds Transfer	300	26
Telematic	250	22
Stock Exchange Operations Processing	240	21
Distribution, Installation, Maintenance of Payment	130	12
Banking Operations	120	11
Systems Operations	90	8
Total	1130	100

Source: INPUT

Managing Means of Payment

Axime's approach to managing the means of payment is illustrated in Exhibit 6.

Axime aims to provide processing services covering all possible means of payment. In 1993, Axime processed 350 million payment card transactions.

In addition, the company processed approximately 100 million cheques and interbank payment vouchers.

Axime also assists clients in:

- The acquisition of smart cards
- The installation, distribution, and maintenance of electronic banking terminals
- Administration of ATMs and automatic cash dispensers.

Extending Bank and Financial Processing Services

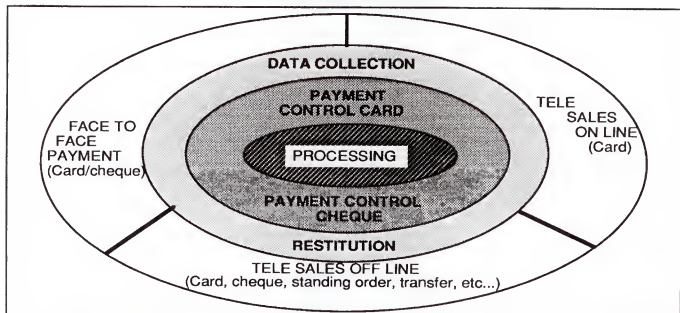
In addition to its means of payment services, Axime provides two principal processing services for use by financial institutions:

- The TITAN services for securities back-office processing
- The ATLAS service for processing of banking operations.

In addition, Axime offers platform operations services targeted at small to medium sized organizations. The level of activity of the TITAN service is summarized in Exhibit 7.

Exhibit 6

Means of Payment Scope of Axime's Services



Source: INPUT

Exhibit 7

Titan Securities Processing Level of Activity 1993

	Banks	Stockbrokers
Number of Customers	20	9
Monthly Transactions	180,000	250,000
Volume of Custody (FFm)	450	40

Source: INPUT

In 1993, the ATLAS processing service had twenty six customers and managed 400,000 accounts in aggregate. Axime typically targets organisations with a turnover between FF 40m and FF200m for its platform operations services. Examples of platform operations contracts awarded to Axime include:

- Processing of a mainframe CPU (65 Mips) for a Telecom operator

- The management of Information System of subsidiaries for one of the first French banks
- The running of a CPU (60 Mips) for a rear office operator (800,000 stock accounts and more than 14,000 users)
- The management of banking Information System for one of the first deposit banks
- The management of a backup and development centre (60 mips) for one of the first French banks.

Developing Home and Office Information Services

Axime's home and office information or telematics services offer information providers the means to make their information widely accessible either over private networks or the public Transpac network.

In 1993, Axime's telematics services achieved revenues of FF 287 million and could be accessed by videotex terminal, telephone, or fax machine. Axime places considerable emphasis on developing the multimedia capability of its telematics services. The service achieved over six million hours of videotex connection time in 1993 and 25,000 hours of audiotex connection time.

The current information providers include a wide range of media such as newspapers and TV channels, and also financial institutions. Examples of information provided include stock exchange information, weather reports and press agency reports.

In addition, two important information providers are:

- Lamy who use the service to support freight services.
- Tatou (Ministry of postal services and telecommunications) who use the service for internal communications.

Axime's telematics service aims to enable all European users to access information in their native language, and currently has operations in France, Italy Belgium, Netherlands and Spain.

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- **U.S. Federal Government**
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CUSTOM PROJECTS

For Vendors—analyze:

- **Market strategies and tactics**
- **Product/service opportunities**
- **Customer satisfaction levels**
- **Competitive positioning**
- **Acquisition targets**

For Buyers—evaluate:

- **Specific vendor capabilities**
- **Outsourcing options**
- **Systems plans**
- **Peer position**

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Company Profile

A Publication from INPUT's Outsourcing Information Systems Programme – Europe

May 1994

SHL Systemhouse Aims to be Global Leader in Transformational Outsourcing

During the last two years, EDS and CSC have considerably increased their presence in the European outsourcing market. Other North American professional services vendors are now aiming to increase their penetration in the outsourcing market here.

For example, although SHL Systemhouse is an organization with annual revenues exceeding \$1 billion, it has a relatively low profile in Europe. SHL Systemhouse now intends to increase its presence in Europe.

The company will aim to grow by:

- Establishing its transformational outsourcing services
- Focusing on certain strategic market sectors.
- Acquisition

Establishing Transformational Outsourcing Services

Prior to 1993, SHL Systemhouse's outsourcing contracts were predominantly mainframe-based platform operations contracts. However in recent contracts, there has been increasing emphasis on distributed systems outsourcing. SHL Systemhouse's current focus is to take advantage of this trend and become "the global leader in the transformational outsourcing market".

SHL defines *transformational outsourcing* as assisting clients in migrating their applications to the more flexible and cost-effective client/server architecture. The service encompasses the operation of a client's mainframe applications, migration to a client/server platform and the operation of that distributed environment. To avoid clients becoming locked-in to paying for services on their existing mainframes, SHL offers a guaranteed decline in charges for

mainframe use as applications are migrated onto client/server architecture. SHL Systemhouse offers a complete transformation service including:

- Datacentre operations
- Legacy system application support
- Client/server architecture planning
- Systems integration services
- Application development and implementation
- Help desk
- Telecommunications services
- Business recovery services
- Networked systems management

SHL Systemhouse will either provide networked systems management or assist clients in establishing their own network operations centre to provide in-house distributed systems management. SHL Systemhouse currently has seven Computing and Network Services centres. Six of these are based in North America and one in London. The company has assembled its own unique set of systems management tools for the management of distributed systems, based around Hewlett Packard's OpenView.

Within its distributed systems management service, SHL offers six core service components and three optional service components. The core service components are:

- Help desk
- Fault management

- Asset and configuration management
- Accounting management
- Performance management
- Security management.

The optional service components are:

- Software distribution
- Data recovery
- Business recovery.

SHL Systemhouse believes that the help desk should be a single point of contact to all support services covering:

- Call logging
- Remote LAN Management
- Field engineering
- On-site support
- Client-specific help desks.

SHL Systemhouse is targeting organizations with more than 500 personal computers attached to LANs, that are implementing LAN-based mission critical applications.

SHL Systemhouse intends to offer end-to-end service delivery. The company provides technology deployment, education and training, systems integration, and consultancy services in addition to its systems management services. A breakdown of the company's European revenues by line of business is provided in Exhibit 1.

Exhibit 1

**Revenue Breakdown by Line of Business,
Europe**

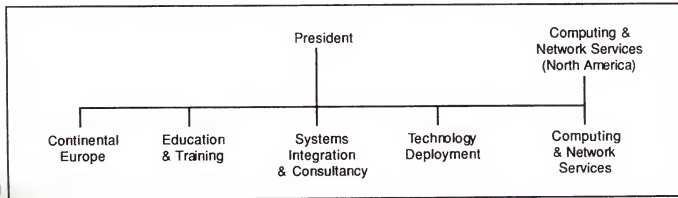
Line of Business	1993 Revenues \$M
Technology Development	100
Training & Education	25
Systems Management	25
Systems Integration & Consultancy	15
Total	165

Source: SHL Systemhouse

The organisation of these service lines in Europe is shown in Exhibit 2.

In addition, the company's European operations have access to the global Strategic Technology Units. These units specialize in client technology, server technology, communications, and systems development environments. SHL Systemhouse has developed its own client/server development methodology called SHL Transform. SHL Transform is workstation-based and object-oriented, using hypertext, hypermedia and video.

Exhibit 2

SHL Systemhouse Europe*Source: INPUT*

SHL Systemhouse also has expertise in full text searching and imaging technology.

In the future, SHL Systemhouse expects the basis of pricing for its services to change from cost-based pricing to a fee per workstation which includes all aspects of application provision and support services. In other instances, clients will pay not for the cost of system implementation and support, but per business transaction as the system is used.

**Focusing on Postal Authorities
and Banking & Finance Sectors**

Worldwide, SHL Systemhouse focuses on three key sectors: postal authorities, telecommunications, and oil and gas. The oil and gas sector is particularly important to SHL Systemhouse in Latin America.

In Europe, SHL Systemhouse also emphasises its experience in the postal services sector. The company played a major role in assisting the U.S. postal service to establish and manage its client/server architecture.

Exhibit 3

Examples of Outsourcing Contacts

Client	Scope of Service	Value (£)
Royal Bank of Canada	Platform Operations Applications Maintenance & Development	15
Westpac Banking Corporation	Platform Operations Technical Support	3.5
RAC	Outsourcing	3
CIBC Mortgages	Platform Operations Technical Support	2
ABN Amro Bank N.V.	Platform Operations Technical Support	1.2
European Postal Organization	Networked Systems Management	

Source: INPUT

SHL Systemhouse already has a major contract with one European postal authority to assist them in managing their distributed environment. This infrastructure consists of approximately 800 Novell servers, 200 UNIX servers, and 3,500 workstations spread over 700 locations.

In the U.K., SHL Systemhouse also has expertise in the banking & finance sector following its acquisition of AST. Examples of SHL Systemhouse's

European outsourcing contracts are listed in Exhibit 3.

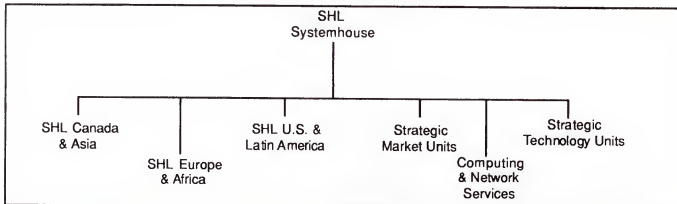
In the U.K., SHL Systemhouse also offers business recovery services to the financial services community. In particular, the company has established two dealing room contingency facilities.

Growth by Acquisition

SHL Systemhouse's current organization structure is shown in Exhibit 4.

Exhibit 4

SHL Systemhouse Organizational Structure



Source: INPUT

The company is organized into three geographic regions and three global entities, through which the company aims to offer a seamless global service. If the company's revenues are apportioned solely on a regional basis, then in 1993, Europe achieved revenues of \$165 million, with the other two regions each achieving revenues in excess of \$400 million.

In Europe, SHL Systemhouse employs approximately 600 personnel, 500 of whom are employed in the U.K. Systemhouse International U.K. was established in 1989 offering systems integration and consultancy services. Since then the company has made a number of U.K. acquisitions, including:

- Computer Group - in 1989, as a basis for the company's technology deployment services
- Computer Marketing - in 1991, to enhance Systemhouse's network integration capabilities
- AST Trans-Act - in 1993, to add major datacentre capability.

The acquisition of AST Trans-Act enables SHL Systemhouse to deliver a complete range of transformational outsourcing services to its U.K. customer base. AST Trans-Act was formally owned by the Royal Bank of Canada and offered outsourcing services principally for the banking and finance sector. Elsewhere in Europe, SHL Systemhouse's presence is comparatively limited and the company will need to make additional acquisitions to build its business in continental Europe.

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Company Profile

A Publication from INPUT's Outsourcing Information Systems Programme – Europe

May 1994

Hewlett-Packard Introduces Selective Outsourcing

In 1986, Hewlett-Packard(HP) created Customer Network Centres in Atlanta, Singapore, and Bristol, and in the following year, introduced Network Monitoring Services. However, it was not until 1993 that HP formed a division - Operations Services Division - dedicated to outsourcing solutions. This year (1994), HP has formally announced its outsourcing services portfolio in Europe.

HP calls its approach to outsourcing: *Selective Outsourcing* and defines it as "HP's approach to helping customers balance internal and external resources and expertise to optimise the management of client/server environments."

HP's Operations Services Division is a global business unit that is:

- Focusing on client/server outsourcing
- Targeting Chief Financial Officers (CFO's) and Chief Information Officers (CIO's)
- Supported by services from other divisions within HP.

Focusing on Client/Server Computing

Traditionally, the mainframe datacentre environment has dominated the outsourcing market. However, many organisations that have begun to adopt client/server based infrastructure are discovering that in many respects this is a more demanding environment in terms of day-to-day management, because of:

- Multi-vendor equipment, software products and communications devices
- Extensive geographic spread of equipment and users
- Need to facilitate users' IT usage while maintaining high levels of interpretability
- Lack of a coherent set of systems management tools for this environment.

In response to these issues, HP has developed operational support services for:

- HP and multi-vendor open systems environments
- Organisations transitioning to open systems
- HP 3000 MPE systems
- Distributed PC environments

HP is not positioned to target large outsourcing contracts where the primary emphasis is the management of mainframe datacentres. However, HP will work with partners with mainframe outsourcing capability to assist organisations seeking to make the transition from a mainframe environment to a client/server environment.

HP's own *Operations Support Services* portfolio consists of the following components:

- Systems management
- Network management
- Desktop management
- Business Protection Services

HP's systems management services are aimed at the HP installed base and also at multi-vendor UNIX environments. For example, HP has experience in managing UNIX equipment from Sun, IBM and Digital.

HP's desktop management service consists of the following optional service elements:

- Help desk
- Education services

- Procurement/needs analysis
- Asset management
- LAN and server management
- Change management
- Data protection
- Technical Support.

Targeting CIO's and CFO's

One of the major issues for vendors such as HP is that outsourcing is frequently viewed as a hostile activity by CIO's in Europe. Some vendors can afford to risk alienation of CIO's by bypassing them and targeting senior board members.

However, this is not an approach that HP considers it can afford to take. Accordingly HP is endeavouring to persuade CIO's, in conjunction with CFO's where necessary, that they need to selectively balance their use of internal and external resources. This approach enables the client to select a sub-set of outsourcing services that address their immediate concerns without feeling threatened by a take-over bid from the outsourcing vendor.

In practice, many of the existing clients of HP's systems management services appear to have been motivated by a need to reduce operational costs. On the other hand, clients of HP's desktop management services appear to be typically motivated by the desire to ensure consistent user desktop support levels.

Examples of HP's European systems management contracts are listed in Exhibit 1.

Exhibit 1

Examples of System Management Contracts

Client	Problem	Services Provided
U.K. Insurance Company	IT under cost pressure	Systems management (24 hour x 7 day) some systems moved to HP sites
Petroleum Company	Long-term support for ageing application & infrastructure	Systems management Help desk
European Airline	Cost-effective 24-hour system management for key application	Overnight (only) systems management

Source: HP

In addition HP has assisted a multinational ceramics company in making the transition from its previous batch systems to SAP R/3. HP assisted in the development and implementation of the new client/server environment, and now provides systems management and network management of the client/server infrastructure.

Examples of HP's desktop management contracts are listed in Exhibit 2.

HP's European outsourcing contracts typically average three years in duration, and have an average value of approximately \$500K.

The pricing mechanism used by HP varies from contract to contract. At present, the majority of deals are conducted on a cost plus basis, but HP expects value-based pricing to grow in importance.

Exhibit 2

Examples of Desktop Management Contracts

Client	Problem	Services Provided
Pharmaceutical Company	Inconsistent desktop service levels. Headcount restraints on IT department	Help desk services. Service level metrics implemented. On-site installations.
U.K. Investment Bank	Inconsistent desktop service levels in critical user environment	On-site help desk. Off-site 2nd line support. Service level management
Telecommunications manufacturer	Cash flow and service levels	Desktop management services Application help desk Finance for LAN environment Equipment procurement Managed service levels

Source: HP

Supported by Other HP Divisions

HP's Operations Services Division reports into HP's World-wide Customer Support Operations organisation. However, the Operations Services Division utilises support from elsewhere within HP. The principal organisational units involved in HP's selective outsourcing services are:

- Corporate Network Services
- Information Technology centres
- Operations Services Centres
- World-wide Response Centre Network
- Systems Support Organisation
- Professional Services Organisation
- Finance and Remarketing Organisation

The HP Response Centre and Operations Centre Network employs approximately 2,300 personnel world-wide, across 32 locations. Four of the network's ten hubs are sited in Europe at:

- Ratigen, Germany
- Bracknell, U.K.

- Les Ulis, France
- Milan, Italy

The Information Technology Centres are responsible for the operation and management of HP's internal IT services.

Access to HP's Finance and Remarketing Organisation is important since many organisations want to avoid the purchase of assets. In addition, introducing technology refreshment into the outsourcing contract assists in ensuring version control and in preventing technology obsolescence occurring at the desktop.

World-wide, HP estimates that its financing division is involved in approximately fifty per cent of outsourcing contracts. However this proportion may be lower for the European contract base.

Personnel from the Professional Services Organisation assist in providing technical consultancy skills such as the design of client/server infrastructures and in delivering technical training.

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Company Profile

A Publication from INPUT's Outsourcing Information Systems Programme – Europe

June 1994

IBM ISSC Begins to Target Distributed Systems Management

Until recently, each of IBM's outsourcing subsidiaries within Europe appeared to have a purely national focus and to independently follow its own strategies. This effect was emphasised by the diversity of names used across Europe. For example IBM's outsourcing subsidiaries were called Axone in France, IBM Systems and Networks in Germany, and IBM ISL in the U.K.

However, IBM has recently renamed each of its national European outsourcing subsidiaries using the ISSC brand name already established in the U.S.. IBM believes that this move will enhance the company's ability to persuade its potential outsourcing clients that IBM has an unified global outsourcing offering.

Another challenge facing the newly-formed ISSC in Europe is the need to address the rapidly growing markets for distributed systems management and desktop services outsourcing. The overwhelming majority of IBM ISSC's European outsourcing contracts are based around IBM mainframe

datacentres. This is particularly true in the U.K. and Germany, though the former Axone subsidiary has been more active than the other principal European outsourcing subsidiaries in addressing outsourcing solutions based around the IBM AS/400.

IBM is targeting distributed systems outsourcing in a number of ways including as:

- A component of major outsourcing and transition outsourcing contracts
- A service offering alongside equipment sales
- A stand-alone desktop services outsourcing offering.

Within Major Outsourcing and Transition Outsourcing Contracts

IBM ISSC's outsourcing contracts in Europe have been dominated by contracts involving the management of mainframe datacentres. These contracts frequently include a small element of desktop

services outsourcing, even though the desire to outsource desktop services was not a major concern of the client in deciding to outsource and in influencing the vendor selection criteria used. Indeed, many organisations that have outsourced the operation of their mainframe datacentres are now seeking to outsource the operation and management of wider aspects of their IT infrastructures, particularly LAN-based operations.

IBM ISSC in France has been particularly active in transition outsourcing where the company has assisted clients in moving from a primarily datacentre based infrastructure to a more distributed IT infrastructure. In France, ISSC views transition outsourcing as the principal source of desktop services outsourcing revenues in the short-term. One advantage of this approach is that it is easier for the vendor to manage and achieve efficient operation of an infrastructure that the vendor has created rather than one that has been assembled, possibly in piecemeal fashion, by the client.

In France, ISSC is finding it difficult to demonstrate cost savings to potential clients that have already assembled their own LAN-based infrastructures because of the high levels of hidden cost typically associated with such infrastructures. Accordingly, ISSC in France has yet to sign its first stand-alone desktop services outsourcing contract. However, the company has developed the necessary desktop services delivery capability in order to support desktop outsourcing

requirements originating out of a wider outsourcing requirement.

Service Offering Alongside Equipment Sales

Although currently only accounting for approximately ten per cent of the platform operations market, another opportunity is the management of stand-alone IBM AS/400s and Unix-based mid-range equipment such as the IBM RS/6000. ISSC perceives that this opportunity will be addressed by offering systems operations as an option, equivalent say, to equipment leasing, on purchase of the system.

This type of service could be associated with the implementation of a particular application product. For example, for a medium-sized organisation, IBM could offer to develop a strategy for the organisation's use of SAP R/3, provide the necessary implementation services, and subsequently provide systems management services.

Stand-alone Desktop Services Offering

In the U.K., IBM established an organisation called Service Plus approximately eighteen months ago. This entity evolved from IBM's Customer Services organisation and was formed in recognition of the importance of multi-vendor maintenance at the desktop level. Since its formation, Service Plus has rapidly developed into an organisation with the capability to provide all aspects of desktop services outsourcing including:

- Procurement
- Environmental services
- Implementation and installation
- Systems management
- Technical support
- Education and training.

In practice, both IBM ISSC and Service Plus operate in the desktop services outsourcing market. However, they tend to operate at opposite ends of the desktop services outsourcing continuum.

ISSC tends to concentrate on desktop outsourcing contracts characterised by a number of the following attributes:

- Involvement of senior executives beyond the IT function
- Prolonged negotiation period
- A wider IT infrastructure outsourcing requirement than just desktop services outsourcing
- The contract involves a significant transfer of assets and/or personnel from the client's organisation
- Transition outsourcing involving the design and implementation of a new IT infrastructure for the client
- Instances where the ISSC brand name has special significance for the client
- Contracts involving an application management component.

On the other hand, the Service Plus business unit tends to address desktop

services outsourcing opportunities characterised by the following features:

- Client involvement limited to the IT Director
- Comparatively short buying cycle
- Minimal transfer of assets or personnel from the client
- Contract solely involves the operation and management of the desktop IT infrastructure.

Currently, the majority of stand-alone desktop services contracts in Europe appear to be originating within IT departments, and do not typically involve the transfer of assets other than possibly support personnel. Accordingly, Service Plus is likely to be the major player within IBM in selling stand-alone desktop services outsourcing.

In terms of service delivery, the Service Plus entity provides IBM UK's desktop service outsourcing capability and supports ISSC where these capabilities are required within a wider outsourcing contract. ISSC provides mainframe and mid-range platform operations capability, wide area network management capability, IT consultancy, and application management skills. Accordingly ISSC perceives that it is one of the few vendors capable of offering outsourcing services encompassing mainframe, proprietary mid-range, open systems, WANs, and LAN-based infrastructures.

Nevertheless, IBM perceives that it needs to establish partnerships with a number of key technology vendors, so as to

INPUT Company Profile

increase the depth of its support capability in certain key third-party products.

IBM recognises the importance of using high levels of automation to reduce the cost of delivering desktop services to its clients. Because of the hidden costs associated with desktop services, it is more difficult to demonstrate service cost reductions to prospective clients in desktop services outsourcing than in the traditional platform operations market.

Service Plus is aiming to be a low cost producer of desktop outsourcing services in order to overcome this cost hurdle.

One example of a desktop services outsourcing contract won by Service Plus is the deal with BP Chemicals. This contract involves supporting 1200 workstations across BP Chemicals' head offices in four countries.

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A Publication from INPUT's Outsourcing Information Systems Programme – Europe

June 1994

Computacenter—The Leading U.K. Desktop Services Outsourcing Vendor

The European desktop services outsourcing market is receiving increasing attention from a wide range of vendors. In the past year, professional services vendors such as Hoskyns and EDS have entered this market as have equipment vendors such as Hewlett-Packard and IBM.

However, in the U.K., the first major desktop services outsourcing contracts, in 1992, were won by the major PC dealers such as P&P and Computacenter. Indeed Computacenter has managed to build on its early lead in this market, and is currently estimated by INPUT to be the leading desktop services outsourcing vendor in the U.K., with 1993 revenues of approximately \$15m.

Three of the major factors that have contributed to Computacenter's initial success are:

- The formation of a separate outsourcing group within the company
- A focus on merchant banks
- The company's breadth of geographic and technical support.

Formation of Specialist Outsourcing Group

Computacenter remains an organisation whose focus is centred on product sales to corporate accounts. Accordingly, Computacenter has developed a culture based around its aggressive sales force, who are primarily compensated on a commission basis. It can be difficult for organisations such as this to adopt the more consultative sales style that is appropriate for selling services, particularly outsourcing. Computacenter also faces the challenge that the major

PC dealers are well-known for their product supply capabilities but are typically regarded as having comparatively low levels of services capability.

Nonetheless, Computacenter has recognised the need to target services' revenues and has established a separate business unit to target desktop services outsourcing.

This business unit is called the Comprehensive On-Site Services (COSS) unit. The unit employs 200 personnel including ten contract managers and is now estimated to have desktop services revenues of approximately \$15 million out of total business unit revenues of \$30 million.

Computacenter's 1993 revenues are summarised in Exhibit 1.

Exhibit 1

Revenues: 1993

Business Activity	Revenues (\$M)
All Activities	470
Services	75
Comprehensive On-Site Services	30

Source: Computacenter

However, there remains a cultural divide between the COSS unit and Computacenter's product-oriented sales force. As a result, COSS acts largely independently from the mainstream sales force in generating and pursuing its own sales leads.

Focus on Merchant Banks

While cost reduction remains a significant driving force behind desktop services outsourcing, one of the keys to identifying desktop services outsourcing prospects is the identification of organisations for whom client/server or LAN-based systems have become critical to the organisation's success.

Organisations operating in the financial markets based around the City of London often meet this criterion. Computacenter estimates that such organisations are five years ahead of typical industrial companies in their use, and dependence upon, client/server technology.

This particularly applies to the merchant banks, which are heavily dependent upon the availability and response times of their trading systems. Computacenter estimates that it has an established presence in this segment of the market having supplied products to all the leading merchant banks. This high level of awareness assists COSS in marketing its outsourcing services into these organisations and the unit has contracts with three major merchant banks, namely:

- SG Warburg
- Lehmann Brothers
- Morgan Stanley.

Other clients in the financial services sector include:

- UBS
- Westpac.

Breadth of Geographic and Technical Support

Overall the COSS unit has approximately ten accounts in the U.K. Outside the City of London, the organisation's clients include:

- TSB
- Shell
- Bass
- United Distillers.

Key factors in winning these contracts have been Computacenter's wide geographic coverage within the U.K. and the company's breadth of specialist technical expertise.

While most desktop services outsourcing vendors are endeavouring to reduce the cost of service by centralising support wherever possible, local access to suppliers still remains important to their clients. Indeed one of the major factors driving organisations to outsource their desktop services has been the difficulty they have experienced in providing consistent levels of support across large branch networks. Accordingly, one of the key vendor selection criteria used by organisations such as TSB and United Distillers has been the geographic coverage of the potential supplier. TSB has an extensive retail banking network in the U.K. and United Distillers required support for 1700 PC users located across 65 sites.

The other major factor in Computacenter's favour is its breadth of technical knowledge in PCs and open systems technologies. Computacenter

supports all aspects of their IT infrastructures, with the exception of mainframes and WANs, for both TSB and SG Warburg.

COSS perceives that one of its key strengths lies in being close to the technology and understanding the possible pitfalls in the use and linkage of a wide range of software products. The help-desk is seen as the key activity in which Computacenter has to provide a high standard of service.

In addition, Computacenter will provide United Distillers, for example, with processing of equipment orders, inventory management, installation services, on-site maintenance, and project support. So far, Computacenter has experienced comparatively low levels of demand within desktop services outsourcing for product procurement and leasing services. However, COSS expects that the demand for these types of service will steadily increase.

The duration of Computacenter's desktop services outsourcing contracts are typically shorter than the market average for platform operations and applications operations contracts. The company's contracts with TSB and United Distillers are both for two years, compared to the market average of four years for systems operations contracts.

As in traditional outsourcing contracts, staff have been transferred from the client to Computacenter. TSB transferred 25 support staff to Computacenter while SG Warburg transferred 50 personnel.

Computacenter would like to form alliances with outsourcing vendors with

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mainframe and proprietary systems management expertise to enable the company to target major outsourcing deals.

However, so far, the company has been limited to working with other outsourcing vendors on a tactical account by account basis.

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A Publication from INPUT's Outsourcing Information Systems Programme – Europe

June 1994

IBB—Assisting German Manufacturing Industry in Cost Reduction

In Germany, IBM has formed an outsourcing subsidiary named IBM Systeme und Netze GmbH. This subsidiary is the equivalent of Axone in France, or IBM ISL in the U.K., and is responsible for all of IBM Germany's internal information services in addition to external outsourcing contracts.

However, the majority of these external contracts are managed from within four subsidiaries of IBM Systeme und Netze GmbH. These subsidiaries are indicated in Exhibit 1.

At the 1st March 1994, these four subsidiaries managed between them a total of twelve external outsourcing contracts. These contracts accrued fiscal 1993 revenues of approximately DM47 million. However the 1994 revenues from these contracts will be a significantly higher, since all of IBO's six contracts have been awarded since August 1993 and SIS was only founded on the 1st January 1994.

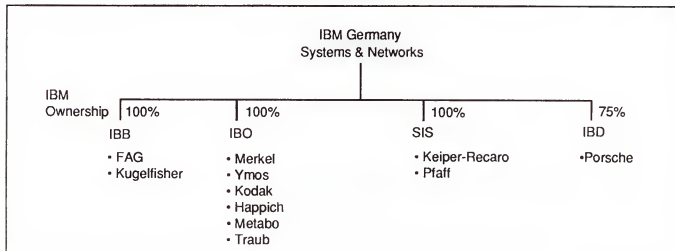
Each of these subsidiaries is 100% owned by IBM Systeme und Netze, with the exception of IBD, a joint venture in which Porsche has a 75% shareholding.

IBB is currently the largest of these four subsidiaries, with 260 personnel. IBB, like its fellow subsidiaries, is targeting significant growth in the German outsourcing market over the next few years. In the short-term, IBB expects much of this growth to continue to be generated from the manufacturing sector. However, there may also be an opportunity for IBB to expand into the insurance sector in Germany.

Initially Focusing on the Manufacturing Sector

All of IBM Systeme und Netze's present customer base are manufacturing companies. IBB's customers are FAG Kugelfischer and two former FAG subsidiaries.

Organisation Structure: IBM Systeme und Netze GmbH



Source: INPUT

There is considerable ongoing demand for IT outsourcing within the German manufacturing industry as German manufacturers struggle to reduce their costs to internationally competitive levels in the face of growing foreign competition.

Accordingly, IBB offers a number of services specifically targeted at the manufacturing sector. These include:

- SAP outsourcing
- Technical information system outsourcing
- EDI

IBB's SAP outsourcing services include consulting, implementation and system management services for both R/2 and R/3 environments. IBB has the capabilities to conduct system and network management across mainframe, desktop, and client/server environments, and is experienced in the management of proprietary architectures

from Bull, SNI, and Digital in addition to those from IBM.

IBB also has the capability to assist manufacturing companies in planning, implementing, and managing their technical information systems. Typically these systems need to be linked to the SAP information system. Possible components of the technical information systems include CAD, for example Unigraphics, CAE, CAP, CAM, and CAQ.

IBB believes that German manufacturing companies are increasingly prepared to approach re-engineering by choosing suitable standard application software products and then amending their business practices to match the software selected.

Expanding Into New Sectors

At present, cost reduction seems to remain the principal driving force behind outsourcing in Germany. As the need for cost reduction emerges in sectors other than manufacturing, so IBB expects

outsourcing opportunities to arise in these sectors. Two sectors where outsourcing is likely to emerge in Germany are the public and insurance sectors.

The public sector in Germany, as elsewhere in Europe, is facing considerable pressure to increase its administrative efficiency. In addition, some bodies within the public sector will be privatised leading to a need for radical changes in business practice. This

should create opportunities for outsourcing vendors such as IBB.

The German insurance sector also needs to amend its business practices immediately if it is to retain its domestic market share as foreign competitors begin to gain access to the German insurance market. Insurance companies typically have considerable overheads that need to be reduced to improve their overall cost structures.

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Company Profile

A Publication from INPUT's Outsourcing Information Systems Programme – Europe

August 1994

IBB—Assisting German Manufacturing Industry in Cost Reduction

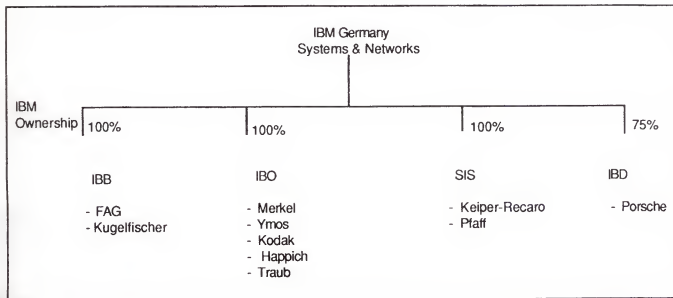
In Germany, IBM has formed an outsourcing subsidiary named IBM Systeme und Netze GmbH. This subsidiary is the equivalent of Axone in France, or IBM ISL in the UK, and is responsible for all of IBM Germany's internal information services in addition to external outsourcing contracts and

network service to internal and external customers.

However, the majority of these external contracts are managed from within several subsidiaries of IBM Systeme und Netze GmbH. These subsidiaries are indicated in Exhibit 1.

Exhibit 1

Organisation Structure: IBM Systeme Und Netze GmbH



Source: INPUT

At the 1st March 1994, these subsidiaries managed between them a total of twelve external outsourcing contracts. These contracts accrued fiscal 1993 revenues of approximately DM47 million. However the 1994 revenues from these contracts will be a significantly higher, since all of IBO's six contracts have been awarded since August 1993 and SIS was only founded on the 1st January 1994.

Each of these subsidiaries is 100% owned by IBM Systeme und Netze, with the exception of IBD, a joint venture in which Porsche has a 75% shareholding.

IBB is currently the largest of these subsidiaries, with 240 personnel. IBB, like its fellow subsidiaries, is targeting significant growth in the German outsourcing market over the next few years. IBB will continue to focus on the manufacturing sector, where the use of outsourcing will continue to grow strongly in Germany. IBB expects to develop its presence in the German manufacturing sector by:

- Developing its ability to provide business solutions for the manufacturing sector
- Offering business reengineering services to the manufacturing sector
- Expanding its contract base onto non-IBM platforms.

Providing Business Solutions for the Manufacturing Sector

There is considerable ongoing demand for IT outsourcing within the German manufacturing industry as German manufacturers struggle to reduce their

costs to internationally competitive levels in the face of growing foreign competition.

Accordingly most of IBM Systeme und Netze's current customer base are manufacturing companies. IBB's present customers are FAC Kùgelfischer and several former FAG factories/manufacturing parts which has been spun off to other buyer companies.

IBB offers a number of services specifically targeted at the manufacturing sector. These include:

- SAP outsourcing
- Technical information system outsourcing
- EDI

IBB's SAP outsourcing services include consulting, implementation and system management services for both R/2 and R/3 environments.

IBB also has the capability to assist manufacturing companies in planning, implementing, and managing their technical information systems. Typically these systems need to be linked to the SAP information system. Possible components of the technical information systems include CAD, for example Unigraphics, CAE, CAP, CAM and CAQ.

Offering Business Reengineering Services

At present, cost reduction seems to remain the principal driving force behind outsourcing in Germany.

However, business reengineering will need to be adopted by many German manufacturing companies in order for them to make the transition to lower cost business processes. FAG Kúgelfischer has undergone an extensive reengineering exercise and is now returning to profitability.

Exhibit 2 illustrates the type of reorganisation that many companies will need to undergo to achieve maximum levels of efficiency and reduce customer lead times.

Information technology has an important contribution to make to company reengineering. BIB believes that German manufacturing companies are increasingly prepared to approach reengineering by showing suitable standard application software products and then amending their business processes to match the software selected.

In particular, the R/3 product is being heavily promoted by SAP as a vehicle for assisting manufacturing companies in reorganising their production operations.

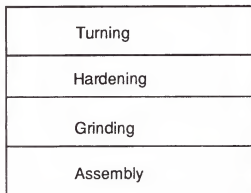
Expanding onto NON-IBM Platforms

IBB has the capabilities to conduct system and network management across mainframe, desktop, and client/server environments, and is experienced in the management of proprietary architecture's from Bull, SNI, and services and solutions for the manufacturing sector are independent of equipment platform and operating system and IBB expects significant part of its growth to come from outside the traditional IBM customer base as manufacturing organisation migrate from proprietary platforms into open systems environments.

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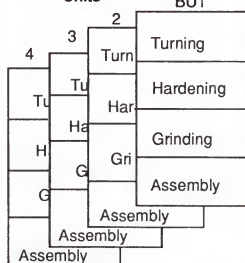
Exhibit 2

Company organised monolithically



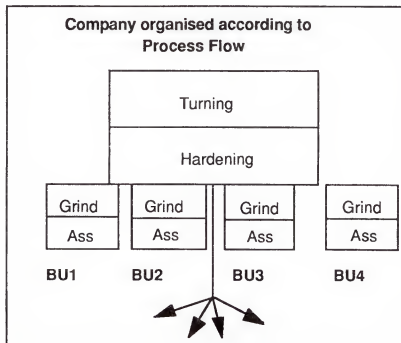
One manufacturing flow for several products for several customers

Company organised in Business Units



Several manufacturing flows for several products for several customers

Company organised according to Process Flow



Source: INPUT

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Company Profile

A Publication from INPUT's Outsourcing Information Systems Programme – Europe

September 1994

AT&T Istel Adopts More Focused Approach to Outsourcing

AT&T Istel achieved annual outsourcing revenues in 1993 of approximately \$90 million, confirming the company as one of the leading ten outsourcing vendors in Europe, and one of the five largest outsourcing vendors in the U.K.

Despite this significant presence in the outsourcing market, AT&T Istel encountered difficulties in expanding its presence in the U.K. outsourcing market during 1992 and 1993. One possible explanation for these difficulties was the insistence of its new parent AT&T on meeting profitability goals rather than revenue growth targets. This is particularly challenging in the U.K. systems operations market which is extremely price-sensitive.

Under the direction of AT&T, Istel is no longer focused strongly on widespread revenue growth, but is seeking to specialise in selected niche markets. The implications of this approach for AT&T Istel's outsourcing activities are:

- The introduction of customer-focused teams

- Increased focus on quality management
- A focus on the manufacturing, finance and health sectors.

Introduction of Customer-Focused Teams

AT&T Istel is no longer actively pursuing cost-sensitive platform operations contracts. Instead, the company is targeting contracts that require a mix of computer operations, wide-area network management and reengineering skills. In particular, the company perceives that its future outsourcing contracts will be characterised by a high transition orientation, a complex (possibly pan-European) networking content. Network security is expected to be a critical purchasing criterion.

AT&T Istel expects to derive an advantage from its association with AT&T by concentrating on WAN-intensive outsourcing. The company anticipates that few of its traditional outsourcing competitors will offer wide area network management or have high levels of expertise therein.

AT&T Istel is also primarily targeting medium-sized outsourcing contracts, typically valued at \$7-15 million over ten years. The company is unlikely to pursue, for example, the major contracts being awarded by departments within U.K. central government.

The company is no longer primarily responding to Invitations to Tender, but is selectively targeting organisations with the appropriate characteristics. It is also placing increasing emphasis on developing its existing client base and is strongly emphasising *strategic account management* as a key skill within AT&T Istel. It is AT&T Istel's intention in the future to develop higher levels of understanding of its clients' business strategies, and to pro-actively to assist them in achieving their business goals.

In order to win contracts selectively with an increasing emphasis on business understanding, reengineering and partnership between client and supplier, AT&T Istel is actively recruiting high-calibre sales personnel. Another factor, contributing to AT&T Istel's failure to win outsourcing contracts during 1992 and 1993 besides the company's lack of competitive contract pricing, may have been the calibre of the sales personnel employed.

Emphasising Quality Management

Following its acquisition by AT&T, Istel is undergoing a major change in corporate culture. The entire senior management team responsible for the management buy-out from the Rover

Group has now left the company, and the entrepreneurial culture that occasionally caused the company problems in the past has been superseded by a new emphasis providing a more controlled environment. The current organisation structure of AT&T Istel in the U.K. is shown in Exhibit 1.

The company is now principally organised according to vertical market. Each division manages the data centres within its own area. For example, the Sheffield data centre acquired from Trent RHA is managed by the Health Information Services division.

In particular, there is even more emphasis on total quality management and security. As part of AT&T, AT&T Istel applies the quality policy and processes of its parent. Currently, 76% of AT&T Istel has achieved ISO certification and the remainder of the company plans to achieve certification by the end of 1994.

AT&T also specifies a number of Corporate Security Instructions that lay down the procedures for maintaining security in the areas of:

- Corporate assets and documents
- Computer and network security.

AT&T Istel has major data centres in:

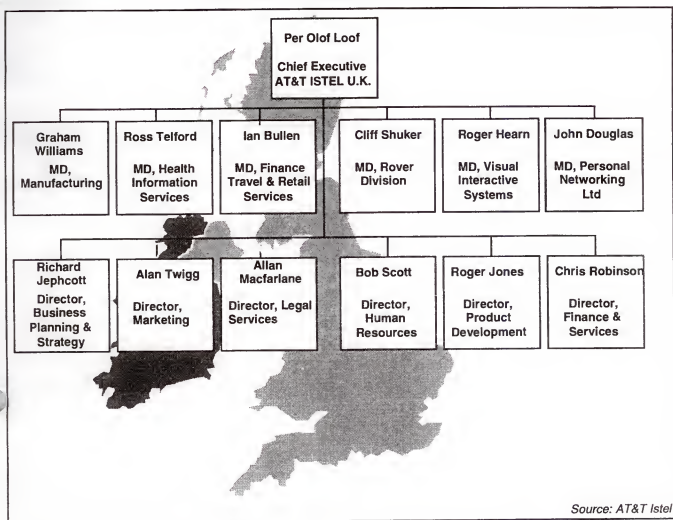
Redditch

Sheffield (formerly Trent RHA data centre)

Newcastle.

Exhibit 1

AT&T Istel: Organisation Structure



Source: AT&T Istel

Smaller data centres are located within Birmingham at Solihull (Land Rover), and Longbridge (Rover Group) and at Winchester, Southampton and Cowley, Oxford (Rover Group).

AT&T Istel has extensive experience in managing IBM and Digital data centres on behalf of the Rover Group and in managing ICL equipment on behalf of health authorities.

Focusing on Manufacturing, Healthcare and Finance

AT&T Istel has a high level of expertise in the manufacturing sector originating

from the company's involvement with Rover Group, its former parent. AT&T Istel's current contract with the Rover Group is valued at approximately \$60 million per annum, divided between \$20 million for platform operations and \$40 million for systems development. Despite the existence of this major reference client, AT&T Istel has been slow to expand its systems operations presence in the manufacturing sector. Currently, the company's only other major systems operations client in the manufacturing sector is Aerostructures Hamble, part of the BAe Group.

AT&T Istel's outsourcing clients in the health sector include:

- Trent Regional Health Authority
- West Midlands Regional Health Authority
- Northern Regional Health Authority
- Wessex Regional Health Authority.

AT&T Istel has a five-year contract, due for renewal in early 1995, with Trent RHA. This contract covers the complete management of the regional computing function based in Sheffield including data centre management, management of the data communications network, systems development and applications support. The basic systems operations contract is valued at \$10 million with additional revenues derived from systems development activities.

In addition to data centre management services, AT&T Istel has taken over the supply and maintenance of the IRIS financial system on behalf of the West Midlands RHA. AT&T Istel also has an agreement to market the Patient Administration System (PAS) developed by Trent RHA and has built up an extensive portfolio of applications for the health sector. Other applications within this portfolio include:

- Case-mix management information systems, including medical audit and contract monitoring
- Theatre management
- Pathology
- Pharmacy.

In addition to its regional contracts, AT&T Istel also has separate outsourcing contracts with the district health authorities shown in Exhibit 2.

Exhibit 2

Outsourcing Clients: District Health Authorities

Region	District Health Authority
Trent	North Derbyshire South Derbyshire Barnsley North Lincolnshire
West Midlands	Worcester Hereford Walsall Solihull West Birmingham
Northern	North Teeside
Mersey	Warrington
NW Thames	Ealing
Yorkshire	Northallerton

Source: INPUT

Contracts with district health authorities typically involve supporting existing regional services while assisting the district in implementing any new systems required.

For example, during the contract with North Derbyshire Health Authority, AT&T Istel has provided and supported services based on the existing regional systems for payroll and patient administration, while supporting the introduction of new systems for pharmacy, contract monitoring and breast screening.

AT&T Istel has built up a strong presence in the health sector, including a

major portfolio of health sector-related applications. However, in spite of this, the company appears to be more successful in supporting the rundown of regional centres than in proactively supporting the development of computing within health authority districts, where INPUT's 1993 client satisfaction survey indicated a level of dissatisfaction with AT&T Istel's ability to apply technology to the health sector.

AT&T Istel perceives the finance sector to be heavily dependent on network-based

services, making this sector a prime target for the company. At present, AT&T Istel supplies a polling service for Barclays Merchant Services, part of Barclays Bank. This service involves:

- Polling nearly 20,000 swipe machine terminals overnight
- Collecting their transaction details and updating their Hot Card records
- Processing the transactions and transmitting them to the appropriate card scheme administrator.

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September 1994

CFM Aims to Establish Itself Internationally

The growth history of CFM in the U.K. outsourcing market in recent years is summarised in Exhibit 1. CFM has shown rapid growth, averaging 65% per annum revenue growth over the past two years. Consequently, in 1993, the company became the second largest outsourcing vendor in the U.K. after Hoskyns.

The U.K. rankings of both Hoskyns and CFM are under threat in 1994 as a result of the recent major contract wins by EDS and CSC. Nonetheless, CFM is aiming to become the largest European outsourcing vendor in the U.K. over the next few years. Indeed, CFM intends to extend its presence beyond the U.K. outsourcing market and become one of the major outsourcing vendors across Europe.

CFM's strategy for achieving these aims depends upon:

- Continued growth in the U.K. public sector
- The company's responsiveness in the private sector
- Acquisitions and joint ventures with other outsourcing vendors.

Continued Growth In The U.K. Public Sector

CFM started out as a company specialising in local government outsourcing and, along with the Capita Group, has been one of the most successful vendors in targeting this sector.

CFM's clients in the public sector now include:

- 25 borough councils
- Mersey Regional Health Authority
- English Heritage
- Nuclear Electric.

Exhibit 1

CFM: Financial Results

	1990	1991	1992	1993
Revenues (\$m)	12	43	67	117
Profit before tax (\$m)	0.6	2.2	5.2	8
Employees	235	583	658	1200

Source: INPUT

The company has recently won large contracts with the two boroughs listed in Exhibit 2.

Exhibit 2

CFM: Recent Public Sector Contracts

Client	Contract Value (\$m)
Bolton Metropolitan Borough	36
Greenwich LBC	33

Source: INPUT

At present, managed services make only a minor contribution - approximately 10% - to CFM's public sector revenues.

However CFM is likely to increase its offerings in this area.

CFM would also like to increase its presence in central government, where the company has so far had little success, with the exception of its contract with the Northern Ireland Office.

Responsiveness In The Private Sector

CFM is still frequently perceived to be a local government outsourcing specialist with little presence in the commercial sector. However this perception underestimates CFM's success in this market private sector.

A breakdown of CFM's revenues by sector is shown in Exhibit 3.

Exhibit 3

CFM: Revenues by Sector

Sector	1993 Revenues (\$m)	Proportion of revenues (%)
Public	72	62
Private	45	38
Total	117	100

Source: INPUT

Because of CFM's strong links with local government, the company has organised itself into three separate divisions. These divisions are:

- Public sector division
- Private sector division
- Northern Ireland division.

Each of these divisions is effectively a separate company with its own sales force and its own service capability, including data centres.

This structure was adopted to enable CFM to demonstrate the seriousness of its intention to target business in the commercial sector and to demonstrate a separate capability for this sector.

However, now that CFM has established its presence in the private sector, it is likely that the service delivery arms of the

public and private sector divisions will work together more frequently to enable CFM to concentrate on improving the competitiveness of its service offerings.

In addition to ICL data centre management capability, CFM has built up considerable experience in managing IBM data centres through its private sector contracts. Overall, approximately 40% of CFM's outsourcing capability is based on ICL equipment and 15-20% on IBM equipment.

CFM's clients in the private sector include:

- Foster Wheeler, a migration contract in which the savings from outsourcing the old architecture are being used to finance new systems development.
- Co-operative Wholesale Society
- Excel Logistics
- Wessex Water.

CFM does not target particular industry sectors within the private sector division and concentrates primarily on mainframe data centre management contracts. Desktop services are delivered to the private sector through ICL's Customer Services Division.

CFM relies for its success in the private sector on developing a high level of awareness of organisations that are

considering adopting outsourcing and a willingness to act quickly.

CFM has been developing its links with key management consultancies by holding a programme of briefing sessions aimed at these organisations. In addition, CFM is assisted in its awareness of potential IBM data centre outsourcing contracts by its association with Amdahl and Hitachi.

CFM also aims to provide speedy decision-making on contract terms by avoiding a lengthy internal contract approvals process.

Acquisitions And Joint Ventures With Other Outsourcing Vendors.

CFM's ambition is to be a major European outsourcing vendor, not just a successful U.K.- based public specialist. However, the company recognises that it will be difficult to achieve this goal by organic growth alone.

The company's first target within this overall objective is to improve its ranking in the U.K. To achieve this goal, CFM is seeking both organic and inorganic growth in the U.K. The acquisition of a complementary outsourcing vendor remains a possibility.

The second target is to establish CFM in continental Europe. The company plans to branch out into continental Europe, probably by joint venture.

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Company Profile

A Publication from INPUT's Outsourcing Information Systems Programme – Europe

September 1994

Hoskyns Maintains Emphasis on Supportive Outsourcing Services

Hoskyns' approach to outsourcing has typically been quite different from that adopted by vendors such as CSC and EDS. While these organisations have targeted major contracts stressing the need for reengineering or reducing the *Impact Gap*, Hoskyns has been more successful in obtaining medium-sized contracts to assist organisations in making the transition to new forms of IT infrastructure.

This traditional emphasis is once again apparent in Hoskyns' latest re-organisation. Although the company has now recognised the importance of organising its prime customer interface into industry sector units, Hoskyns' principal outsourcing offerings remain:

- Applications management services
- Distributed computing services.

Hoskyns Adopts Industry Sector Facing Organisation Structure

Until March this year (1994), Hoskyns was primarily organised into three functionally oriented divisions, namely:

- Information Systems Support, which was the company's outsourcing division
- Project Services
- Consulting and Education.

These divisions typically contained sales personnel and consultants with an industry sector focus, but the primary role of these personnel was to promote their own division's offerings rather than those of the company as a whole.

However, Hoskyns has now recognised the importance of offering full-service line capability to each of its prospects. In particular, as the emphasis in the outsourcing market changes from mainframe operations to facilitating business reengineering, so the ability of the outsourcing vendor to understand the client's business and offer industry-specific solutions becomes increasingly critical.

Accordingly, Hoskyns' primary customer interface has been changed from its horizontal service divisions to four industry sector facing divisions. These divisions specifically target the following sectors:

- Financial services
- Public sector
- Industry (principally manufacturing)
- Retail, distribution and leisure (RDS).

These industry facing divisions are backed by the service delivery organisations, which in turn contain skill centres (for example, an Oracle centre of excellence) and practices (for example, experts in project management methodology).

Focusing on Applications Management

Hoskyns is one of the leaders in the U.K. market for applications management. Examples of the company's application management contracts are listed in Exhibit 1.

Exhibit 1

Hoskyns: Examples of Application Management Contracts

Client	Contract Value (\$m)	Contract Length (years)
Britannia Life	2.2	3
Calor Gas	2	3
Coventry Building Society	0.7	1.5

Source: INPUT

Hoskyns' application management service is divided into three offerings:

- Application maintenance management
- Software-only application management
- People and software application management.

Historically, application management was primarily concerned with the management of legacy applications that were scheduled for replacement by the client. However, Hoskyns perceives the current application management market to be very diverse, with application management opportunities emerging as:

- Either single or multi-application opportunities
- Both mainframe and distributed system- based.

In this market, Hoskyns perceives the need to demonstrate a significant improvement in both the quality of the application and in the costs incurred in developing and/or maintaining the applications concerned.

The keys to success in this market are the ability to audit software with which the vendor is initially unfamiliar and the ability to implement best practice in software maintenance and development.

Targeting Distributed Computing Services

A large component of Hoskyns' traditional outsourcing business has been concerned with assisting clients in making the transition from mainframe-based architectures to distributed systems or client/server-based architectures. Unfortunately, the major element of these projects has been the phasing out of redundant mainframe services.

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Many clients have remained reluctant to outsource the implementation and ongoing management of their replacement systems.

However, there are now some indications that transition outsourcing clients are becoming more prepared to involve their outsourcing vendors in the implementation and ongoing management of new systems. In addition, some clients are outsourcing the management of their existing desktop services as a separate exercise, where these systems have become too complex or too critical to manage in-house. Hoskyns is targeting these emerging opportunities with its Distributed Computing Services (DCS) offering.

The DCS service encompasses the management of client/server, local area network and desktop environments.

Like a number of other vendors, such as Hewlett-Packard, who offer desktop services, Hoskyns stresses the modularity and flexibility of its service. Hoskyns considers its core offering to have three main components:

- Service management
- Supplier management
- Service desk.

Service management is primarily concerned with delivering greater infrastructure management efficiency in the client/server environment. The service management agreement is built around agreed service levels, though Hoskyns is endeavouring to keep these agreements flexible to cater for changing user requirements.

Supplier management consists of Hoskyns acting as an interface between the client

and suppliers such as personal computer suppliers, software product suppliers and maintenance companies. Hoskyns does not carry out purchasing or offer equipment maintenance services in its own right. However, Hoskyns will work with the client to establish a purchasing policy. This will typically entail restricting the client to a narrower range of equipment and software than is currently installed, to ensure greater cohesion across the organisation and lower support costs. Hoskyns will manage the procurement process for the client but will not typically undertake purchasing or supply. Hoskyns will also tend to subcontract equipment maintenance.

The help-desk service is one of the critical components of desktop services. The help-desk service assists in generating user confidence in the service, enabling Hoskyns to extend the range of services provided. At present, Hoskyns provides both on-site and off-site support, particularly to its larger clients. However, Hoskyns aims to increase the proportion of remote support provided. In the long term, Cap Gemini Sogeti aims to link all its support desks so that a local language support service can be provided in each country, backed up by international specialist support desks. Clients of Hoskyns' distributed computing services include:

- Esso
- ICI Paints
- NatWest Life
- Sainsbury's.

As is often the case in desktop services, these clients show a concentration in the financial services and process manufacturing sectors.

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Research Bulletin

A Publication from INPUT's Outsourcing Information Systems Programme – Europe

Vol. V, No. 16

September 1994

Outsourcing Contract Characteristics Show Increased Diversity

Outsourcing is still frequently characterised as a utility function, focused on data centre operations. In this model, the lengths of outsourcing contracts are dictated by financial engineering criteria and tend to be comparatively uniform. In addition, the major driving force behind the decision to outsource is either the chief financial officer or the CEO.

However this is an over-simplification, and, in practice, many outsourcing contracts are diverging from this elementary model. This research bulletin analyses the manner in which a number of key contract characteristics are evolving. It is apparent that:

- Approximately 50% of contracts currently include an application development component in addition to data centre, or distributed equipment, management
- Contract lengths and values will tend to polarise around the extremes of short/low value and long/high value contracts
- The role of IT personnel is increasing, rather than decreasing, in importance in response to growth in desktop services and application management.

Approximately 50% Of Contracts Currently Include An Applications Development Component

Exhibit 1 provides a detailed breakdown of the ways in which service components are bundled within IS outsourcing contracts.

Exhibit 1

Outsourcing by Scope of Contract

Scope of Contract	Proportion of 1993 revenues (%)
Equipment operation only	1
Equipment operation and responsibility for system software	20
Equipment operation and maintenance of existing applications software	25
Equipment operation and responsibility for development of new applications/business systems	20
Equipment operation, maintenance of existing applications, and development of new systems	27
Application management only	7

Source: INPUT

This analysis includes all systems operations, desktop services and applications management activity, but excludes wide area network management and business process management.

The chart shows the extent to which applications maintenance and development services have become important components of IS outsourcing. The majority of outsourcing contracts (approximately 55%) now involve applications maintenance services and approximately 50% of contracts involve new system development.

It is likely that this trend will continue and the proportion of contracts by value that involve neither applications

maintenance nor applications development responsibility (at present, approximately 20%) will decrease further over the next few years.

Contract Lengths And Values Will Polarise In The Future

Exhibit 2 provides an analysis of IS outsourcing contracts by contract length.

Exhibit 2

Outsourcing by Contract Length

Contract Length	Proportion of 1993 revenues (%)
Less than 2 years	6
2 - 4 years	48
5 - 7 years	38
8 years or more	8
Average (years)	4.5

Source: INPUT

The overall average has changed very little over the past two years. However, it is noticeable that a significant polarisation is beginning to take place. Two years ago, with the exception of transition outsourcing contracts that had an average life of 2.5 years, the overwhelming majority of outsourcing contracts in Europe had a duration of between three and five years.

Since then there have been increases in the numbers of contracts with lengths outside this range. At one extreme, the major contracts, often valued well in excess of \$100 million, that have been signed over the past two years typically have contract lengths of around ten

years. At the same time, many of the applications management and desktop services contracts that have been signed are of one to three years in duration.

As outsourcing becomes increasingly oriented around desktop services and the management of client/server architectures, so this polarisation will continue. Some organisations will want flexible short-term contracts with the emphasis on tactical support for applications or client/server operations. Others will develop more strategic, longer-term relationships with their suppliers.

A similar effect will occur in relation to overall contract values. Desktop services contracts are typically both shorter and of lower value per annum than traditional systems operations contracts.

Exhibit 3 shows the present breakdown of European outsourcing contracts by lifetime value.

Exhibit 3

Outsourcing by Contract Value

Contract Value (\$m)	Proportion of 1993 revenues (%)
Less than \$2m	15
\$2m - \$5m	35
\$5m - \$20m	25
\$20m or greater	25
Average (\$m)	15

Source: INPUT

Taking the average life of an outsourcing contract as 4.5 years, this gives an average annual value for European outsourcing contracts of \$3 million.

The Role Of IT Personnel Is Increasing In Importance

Exhibit 4 provides an estimate of the proportion of outsourcing contracts by value that are dominated by mainframes, mid-range equipment and personal computers. For example, the majority of outsourcing contracts involving mainframes will tend to be dominated by the economics of mainframe outsourcing, irrespective of the presence of other equipment such as workstations. The proportion involving mainframes is steadily decreasing though it is unlikely that they will become a minority during this decade.

However, the growth in the numbers of lower-value desktop services and application management contracts is increasing the importance of IT management as an initiator of outsourcing contracts.

The role of these services as key initiators has already increased over the past two years as shown in Exhibit 5.

Exhibit 4

Outsourcing Contracts by Platform

Platform	Proportion (%) 1992	Proportion (%) 1993	Proportion (%) 1994
Mainframe	87	82	80
Mid-range	8	10	10
Personal computer	5	8	10

Source: INPUT

Exhibit 5

Outsourcing Contracts by Major Influence

Major Purchasing Influence	Proportion (%) 1992	Proportion (%) 1993	Proportion (%) 1994
CEO or board-level committee	80	75	70
IT directors or managers	20	25	30

Source: INPUT

This trend is expected to continue as the desktop services market exhibits rapid growth and as organisations

increasingly outsource the ongoing maintenance and management of legacy applications.

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Vendor Profile

A Publication from INPUT's Outsourcing Information Systems Programme – Europe

November 1994

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Athesa UK Aims for £50m Contracted Revenue by End 1995

In February 1994, Bull UK announced its entry into the outsourcing market with the formation of Athesa UK. Athesa UK, headed by Brian Gunn, is a separate division of Bull UK, affiliated to Athesa International, Groupe Bull's outsourcing division. These links to Athesa International provide Athesa UK with access to the resources and skills required to participate in international outsourcing contracts across much of Europe.

However, since its launch eight months ago, Athesa UK has concentrated on UK-based contracts. The organisation has been successful in establishing an early presence here, winning contracts with a total contracted value of £20m in its first six months of operation. Athesa UK is aiming to build on this early success by developing a contract base worth £50m by the end of next year. The keys to this success are:

- Focusing on the UK local government market
- Focusing on the existing client base of Bull UK

- Adopting a flexible approach to outsourcing contracts

Targeting Local Government

Local government promises to be one of the major opportunities for outsourcing vendors in the UK over the next three years. Accordingly, it is a natural target for new entrants to the UK outsourcing market. However, Bull also has significant experience in local government, including a background of developing local government applications such as revenue collection and housing support.

Athesa has quickly established itself as a player in this market by winning an outsourcing contract with Brighton Borough Council. This contract is valued at £5m over a five-year period and was won in partnership with Data Sciences.

Under the terms of the contract, Athesa and Data Sciences will be responsible for Brighton Borough Council's IBM VM/VSE processing, Digital VAX and Alpha processing and desktop services.

Prior to its successes with Brighton Borough Council and Eastern Electricity, Athesa UK had data centres based in:

- Hemel Hempstead
- Livingston
- Hounslow

However, as a result of these contracts, Athesa UK has acquired additional data centres in Brighton and Chelmsford. Because of this, the activities of the Hounslow data centre are now being transferred to Hemel Hempstead and Chelmsford.

The number of operations personnel employed by Athesa has also increased to approximately one hundred. Thirty operations personnel are now employed at the Brighton data centre, forty at Chelmsford, and eight manage internal systems on behalf of Bull UK.

Targeting the Bull Client Base

One advantage held by the equipment vendors in launching outsourcing offerings, is that they are perceived by their existing clients to have concentrated levels of expertise in the operation of their own equipment and systems software. As a result, Athesa UK has an advantage within the Bull client base over many more established outsourcing vendors who have only limited operational experience in Bull technology.

At the same time, many Bull clients now need to migrate to open systems and distributed IT architectures.

Illustrating this trend, Athesa UK has won a contract with United Distillers to operate its two Bull mainframes for eighteen months while United Distillers migrates to IBM

AS/400 and Unix-based systems. This contract is valued at £420K.

More significantly, Athesa has won a contract with Eastern Electricity worth £15m over five years. The contract involves operational and technical support of two Bull mainframes together with support of applications software.

At present, Athesa UK is focusing on contracts valued in the range £1-15m that are primarily concerned with data centre management and applications support. However, the organisation will provide desktop services outsourcing and network management as required.

In addition, it is probable that Athesa UK will acquire a wider managed services capability to target opportunities such as revenue collection and housing management in the local government sector.

Adopting a Flexible Approach to Outsourcing Contracts

Athesa UK recognises the importance of taking a flexible client-centred approach to outsourcing contracts. The organisation's initial launch emphasised the importance of clients addressing the issues of supplier lock-in and client loss of control at an early stage in the outsourcing process.

Overall, Athesa UK takes a consultative approach to outsourcing, with emphasis on:

- Providing the client with a range of options
- Ensuring that the client's expectations are realistic and achievable
- Avoiding an adversarial stance

Within this approach, Athesa UK attaches considerable importance to the establishment of realistic service level agreements.

In the local government market, it is also important that vendors are sensitive to personnel issues. For example, within the contract with Brighton Council, 29 council staff have transferred to Athesa UK under their existing terms and conditions and with a guaranteed two-year no-redundancy period. These personnel also retained their membership, and recognition, of the trade union Unison.

During the bidding process, the affected personnel were provided with visits to Hemel Hempstead and encouraged to discuss their career prospects with Bull employees who had previously joined the company from the local government sector. During these informal discussions, no members of the Athesa account team were present, facilitating a frank expression of both concerns and responses.

In addition, Athesa is taking over premises from Brighton Council. These premises will be developed by Athesa into a regional centre of excellence, with the promise of increased local employment as the number of personnel based there increases to 200 over a period of time.

These employment issues are a major concern in the local government sector.

Athesa UK's focus on personnel issues also extends to the private sector. Former employees of Eastern Electricity who are transferring from Ipswich to Athesa's Chelmsford location have an option built in to their contracts enabling them to return to Ipswich at any time during the first 12 months of their employment.

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Company Profile

A Publication from INPUT's Outsourcing Information Systems Programme – Europe

November 1994

Capita Group Expands its Coverage of Public Sector Services

The Capita Group was established in 1987 by a management buy-out from the Chartered Institute of Public Finance and Accountancy (CIPFA), a professional body in the UK public sector.

The company has rapidly established itself as a local government specialist, and has been quick to take advantage of the trend to outsource IT and other business services within UK local government.

The company continues to grow rapidly and is developing its presence in the public sector by:

- Extending its Coverage of White Collar Services
- Strengthening its Systems Integration Capability
- Targeting Central Government and Utilities

Extending Coverage of White Collar Services

Exhibit 1 provides a financial summary for the Capita Group.

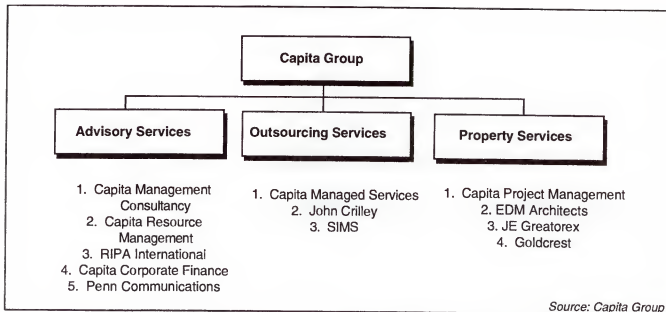
Exhibit 1

Capita Group: Financial Summary

Year	1991	1992	1993	1st half 1994
Revenues (£m)	24.7	30.8	47.0	30.5
Revenue Growth (%)	23	25	53	38
Pre-tax Profit (£m)	3.4	4.4	5.5	2.7
Margin (%)	14	14	12	9

Source: Capita Group

Capita Group Structure



Capita reorganised with effect from the 1st January 1994, adopting the structure shown in Exhibit 2.

Capita Managed Services provides Capita's white collar outsourcing services. Capita Managed Services was initially established in 1991 to provide collection management services, and was strengthened by the acquisition of Revenue Collection Services in 1992.

At the beginning of 1994, Capita merged its existing outsourcing activities into Capita Managed Services by combining Telecom Capita, the group's IS outsourcing subsidiary, and Capita Managed Services, the group's revenue collection subsidiary.

Capita has made a number of acquisitions to strengthen its managed services capability. In 1992, Capita acquired Roach & Co., a certified

bailiff company employing 120 personnel. In 1993, Capita acquired an additional bailiff company, John Crilley & Son, to strengthen its national support for revenue management contracts.

Capita is also targeting property management through its Property Services Division. However, the company reported poor performance in property facilities management during the first half of 1994.

It is probable that Capita Managed Services will further increase the scope of its ability to provide white collar services to local government in the future. This is likely to take the form of acquisitions; to gain access to organisations with capabilities in areas such as local government housing management.

A breakdown of Capita's revenues by service type is shown in Exhibit 3.

Exhibit 3

Revenue Breakdown by Service Type, 1993

Service	Revenues (£m)	Proportion (%)
Outsourcing	30.6	61
Advisory	10.1	20
Property	9.4	19
Total	50.2	100

Source: Capita Group

Outsourcing comprises the largest part of the company's revenues and continues to grow more rapidly than its other activities.

Exhibit 4 shows the recent growth within the company's Outsourcing Division.

The Outsourcing Division started 14 new local government contracts during 1993. At the end of June 1994, the division's future contracted revenue equalled £118m. At present, Capita Managed Services employs approximately 780 personnel.

Exhibit 4

Outsourcing Division: Financial Summary

Year	1991	1992	1993	1st half 1994
Revenues (£m)	11.2	14.1	30.6	21.1
Revenue Growth (%)		26	117	77
Pre-tax Profit (£m)	2.0	1.9	2.6	1.5
Margin (%)	18	13	8	7

Source: Capita Group

A number of the company's major IT outsourcing contracts are listed in Exhibit 5.

Other clients of the outsourcing division include:

- Tynedale District Council
- Hinckley and Bosworth Borough Council
- West Wiltshire District Council
- Rutland District Council
- Mendip District Council
- Tendring District Council

At Mendip District Council, Capita Managed Services manages the exchequer functions, in addition to providing IT outsourcing services.

Capita was one of the first organisations to establish itself in the local government managed services market, signing a contract with East Cambridgeshire District Council for revenue collection in 1992.

Exhibit 5

IT Outsourcing Contracts

Client	Value (£m)
Oxfordshire CC	28
Wiltshire CC	20
Kent CC	15
Berkshire County Council	12
NHS Pensions Agency	8
Torfaen BC	6
Companies House	2

Source: Capita Group

In 1993, Capita signed a contract with the London Borough of Bromley covering outsourcing of the entire exchequer services function; namely: revenues; benefits; payroll; pensions; creditors and income. This contract involved the transfer of 170 personnel to Capita Managed Services.

Examples of Capita Managed Services' non-IT outsourcing contracts are listed in Exhibit 6.

Capita Managed Services has established itself as one of the major suppliers of managed services to the UK local government and is currently responsible for the management of the collection of approximately £1.5 billion in local taxes.

The bulk of this revenue collection activity is handled from Capita's South East Business Centre based in Clacton.

Capita Managed Services has additional regional business centres each containing a data centre at:

Exhibit 6

Managed Services Contracts

Client	Service
DVLA	Sale of vehicle registration numbers
City of Westminster	Collection of council tax & business rates
Bexley LBC	Collection of council tax & business rates
East Cambridgeshire DC	Revenue collection
BBC	Licence fee collection
Bromley LBC	Exchequer functions
Royal Borough of Kensington & Chelsea	Collection of business rates

Source: Capita Group

- Bromley
- Cardiff
- Ealing
- Hexham, Northumberland
- Hinckley, Leicestershire
- Oakham, Rutland
- Shepton Mallet
- Slough
- Trowbridge
- Welwyn Garden City
- West Malling, Kent

Strengthening Systems Integration Capability

At present, the majority of Capita's IT-related revenues are derived from outsourcing contracts, principally with local government. Approximately 15% of Capita's software and services revenues are derived from software product sales and the provision of business integration services.

However, Capita Managed Services intends to increase its activities in these areas to make the company a more complete supplier of software and services to local government.

Recently, Capita Managed Services has started to acquire a portfolio of specialist software products for local government. The company has purchased:

- West Wiltshire Software - a supplier of revenues and benefits systems
- The housing products of Sherwood Computer Services Plc
- Sims Holdings Limited - a major supplier of school administration systems

Capita has already signed a £2.4m deal with Lewisham LBC for the provision of an integrated housing management system.

In addition, Capita Managed Services plans to move into the wider systems integration market and strengthen its ability to offer business reengineering services.

As an alternative to outsourcing, Capita Managed Services may begin to offer services designed to assist local government bodies in adopting best practice and so defending their organisations from the impact of Compulsory Competitive Tendering (CCT).

One of the motivations behind Lewisham's purchase is a desire to make its own housing department more competitive in the face of CCT.

Targeting Central Government and Utilities

Capita Managed Services also intends to expand its target market beyond local government. In particular, the company wishes to offer services to central government and utilities.

The company is well placed to target the small to medium-sized opportunities emerging from the central government market testing programme. Capita Management Consultancy is engaged in a number of assignments advising central government departments on market testing, giving Capita Managed Services both an introduction, and an established level of credibility, in these situations. However, Capita Managed Services' level of IT outsourcing activity is still too low to make it a credible contender for contracts exceeding £50m.

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Vendor Profile

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November 1994

Philips C&P Builds Global Full-Service Outsourcing Capability

Philips Communications & Processing Services International (Philips C&P) is the IT services division of Philips Electronics. Philips C&P specialises in the outsourcing of computer centres and data communications networks.

While the majority of Philips C&P's revenues currently derive from contracts with their parent group, Philips C&P has plans to grow its external revenues significantly by:

- Continuing to extend the geographic scope of its activities
- Developing a full- service outsourcing capability
- Utilising the potential of its existing wide area network

Aiming to Become an International Supplier

The organisation structure of Philips C&P is shown in Exhibit 1.

In Europe, Philips C&P assumed full control of operational services in France in 1993. Previously, these were incorporated in Polydata.

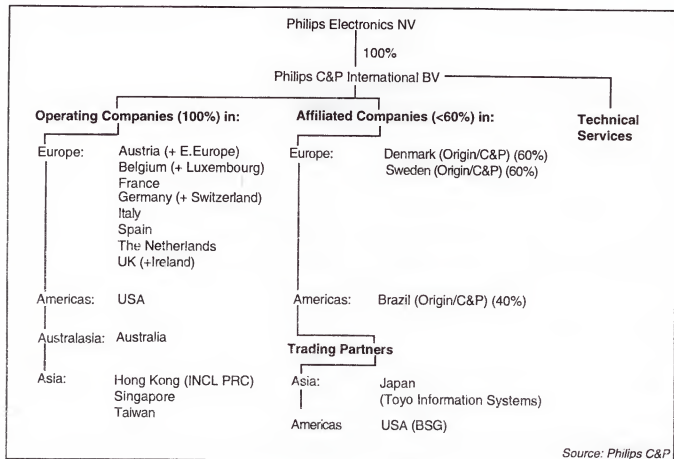
Philips C&P has an extensive international presence as a result of its global support of Philips Electronics, including a presence in ten European countries.

In addition, Philips Electronics has recently adopted a policy of transferring its activities to low-cost countries outside Europe, and Philips C&P has been active in supporting these developments. Consequently, Philips C&P has a significant presence in Asia and South America.

In 1993, Philips C&P announced an alliance with Toyo Information Systems (TIS) in Japan. One of the major objectives of this alliance was to extend network coverage for both TIS and Philips C&P. TIS has a domestic network throughout Japan which has now been linked with Philips C&P's global network. Consequently, TIS will be in a position to offer improved international support for Japanese multinationals and Philips C&P will be able to support European multinationals' Japanese operations. TIS also offers systems integration services in Japan.

Exhibit 1

Philips C&P: Organisation Structure



Source: Philips C&P

In the US., Philips C&P has entered into a joint venture with BSG to offer transformational outsourcing services, with the emphasis on converting clients' IT infrastructures from mainframe-based systems to client/server-based systems. In

1994, this joint venture, Alliance/IT, acquired Power Computing Company, the IT services and scientific consulting subsidiary of McDermott Inc., providing access to a number of major US organisations. The development of its US based outsourcing activities is very important to Philips C & P.

A breakdown of Philips C&P's 1993 revenues by country is shown in Exhibit 2.

Exhibit 2

Revenues by Region, 1993

Region/ country	Revenues (\$M)	Proportion (%)
Europe	245	84
Netherlands	90	30
Germany	60	20
UK	30	10
Austria	20	7
Belgium	20	7
Asia/Pacific	18	6
South America	18	6
North America	10	4
Total	295	100

Source: Philips C&P

These figures include Philips C&P's captive revenues within Philips Electronics. Revenues within the Philips group accounted for approximately 78% of 1993 revenues. Accordingly Philips C&P achieved 1993 revenues of approximately \$65m outside the Philips group.

Philips C&P's major outsourcing contracts, with an emphasis on those outside the Philips Group, are listed in Exhibit 3.

In 1994, Philips C&P signed a \$35m contract with British Coal and purchased its Compower subsidiary, providing the company with a major data centre based at Cannock. The contract was won in conjunction with Origin UK and will run for 23 months to June 1996.

Exhibit 3

Outsourcing Contracts

Country	Client
Austria	Schoeller Bleckman ABB
Belgium	BP Shell
Brazil	Shell Mannesmann ABN-AMRO
Denmark	Bang & Olufsen
Germany	Grundig
Netherlands	City of the Hague DAF
UK	Leyland Trucks British Coal
USA	McDermott Louisiana Land & Exploration Co Lykes Bros Millenium Healthcare Services

Source: Philips C&P

British Coal's mining activities are currently being privatised in the form of five regional entities, and Philips C&P is aiming to become a supplier to successor private sector organisations beyond the initial contract period.

Extending Beyond Infrastructure Management

Philips C&P developed from the IS operations services entity within Philips Electronics. Its services, broken down by revenue in Exhibit 4, are mainly centred around data centre and network management.

Exhibit 4

Revenues by Service Component, 1993

Service component	Revenues (\$M)	Proportion (%)
Data centre management	195	67
Managed network services	40	14
Systems integration / professional services	30	10
Telecommunications services	25	9
Total	295	

Source: Philips C&P

Philips C&P has concentrated its processing into five large data centres based in Eindhoven, Paris, Hamburg, Sao Paulo and Dallas, US. The company has smaller data centres in Fürth, Monza, New York and now Cannock. At the mainframe level, the emphasis within the company's data centres is on the management of IBM environments.

The Fürth data centre specialises in IBM AS/400 management and Philips C&P manages a very high proportion of non-mainframe equipment. Fifty per cent of Philips C&P's data centre revenues come from the management of non-mainframe equipment. One reason for the high proportion of non-mainframe equipment managed, often remotely, by Philips C&P, is the extensive downsizing carried out by a number of divisions of Philips Electronics, including the Consumer Electronics Division.

Philips' internal systems development personnel were acquired by BSO in 1991 creating the entity Origin. Origin subsequently merged with BSO forming BSO/ORIGIN.

However, Philips C&P now wishes to be able to offer full-service contracts to all its customers and is strengthening its links with BSO/ORIGIN.

In 1993, Philips C&P established combined full-service companies with BSO/Origin in Sweden and Denmark. These companies have been named ORIGIN/C&P.

Philips C&P already had a joint venture agreement with BSO/Origin in Brazil.

Philips has a 41% stake in BSO/Origin and it is probable that the two organisations will become more closely aligned in the future, with the goal of offering full-service capability on a wider geographic basis.

Exhibit 5 provides a breakdown of Philips C&P's revenues by industry sector.

Exhibit 5

Revenues by Industry Sector, 1993

Sector	Revenues (\$M)	Proportion (%)
Manufacturing	235	80
Finance	25	8
Government	5	2
Other	30	10
Total	295	100

Source: Philips C&P

These numbers are dominated by Philips C&P's contracts with Philips Electronics and so are categorised as services to the

manufacturing sector. However, Philips Electronics also has extensive activity in functions such as wholesale distribution.

Overall Philips C&P is targeting the following sectors:

- Manufacturing
- Finance
- Distribution
- Healthcare

Philips C&P is developing areas of expertise appropriate to these sectors. For example, there is a group specialising in manufacturing expertise based in Eindhoven, and BSO/Origin has experience in the implementation of SAP systems.

Philips C&P's healthcare expertise is based in Italy.

Utilising the Potential of its Existing Wide Area Network

One of Philips C&P's strengths is its global wide area network, enabling the company to offer other multinationals infrastructure management services with wide geographic coverage.

Philips C&P has also launched a number of value-added services using its extensive wide area network, including:

- An office automation service based on Lotus Notes
- EDI services, originally established to provide communication between Philips and its suppliers
- Philips Home Services

Philips Home Services (PHS), launched in conjunction with Citibank in the US, is an intelligent home information service covering areas such as home banking information and shopping services. Philips C&P plans to add additional services to the PHS consumer services network.

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Vendor Profile

A Publication from INPUT's Outsourcing Information Systems Programme – Europe

December 1994

Olivetti—Investing in Desktop Services

Olivetti is one of the leading vendors in the provision of multivendor maintenance. The company's Oliservice division is now investing heavily in developing services and a technical infrastructure for the support of desktop services. Like the customer service arms of many of the equipment vendors, Oliservice is offering an incremental, bottom-up approach to desktop services outsourcing.

This means that Olivetti will find it difficult to compete for contracts where organisations require a single source of supply for the outsourcing of their entire IT infrastructure. Nonetheless, Olivetti has the potential to become one of the principal players in the market for stand-alone desktop services. In particular, the company is in a strong position to take advantage of organisations now wishing to move beyond multivendor maintenance towards a more complete desktop services outsourcing arrangement.

Olivetti's principal desktop management objectives are to:

- Assist organisations in reducing their desktop support costs

- Increase the productivity of users by reducing time lost due to excessive system complexity and time spent in trouble shooting.

Olivetti intends to meet these objectives by:

- Providing a comprehensive desktop services portfolio
- Implementing a global infrastructure for network support
- Reducing its own service delivery costs.

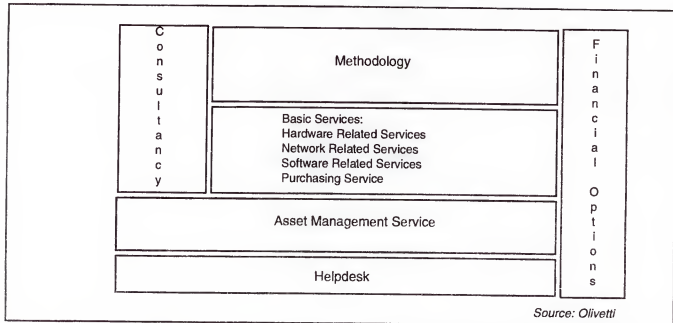
Developed Comprehensive Desktop Services Portfolio

Olivetti aims to offer a high level of flexibility to the customer, enabling them to decide the precise level of desktop support required, ranging from equipment maintenance, through network design, installation and management, through to complete desktop services outsourcing.

Exhibit 1 illustrates the principal service components within Olivetti's desktop service portfolio.

Exhibit 1

Olivetti's Desktop Services Offering



Olivetti's desktop services offering is aimed at providing both management-level support and user-level support.

At the management level, Olivetti offers:

- Consultancy services
- Asset Management
- Purchasing services.

Olivetti's consultancy services cover both technical and organisational consultancy. Within technical consultancy, the services include network planning and design, system optimisation and tuning, and technical training.

Olivetti stresses the importance of cost reduction and control of desktop assets. Accordingly, the company places considerable emphasis on its ability to manage the desktop base, both equipment and software products. To assist in asset management, Olivetti uses PC Census from Tally Corporation, and Qualipark from PS Soft in France. The company uses PC Census for inventory

audits, and Qualipark for inventory reports and financial evaluation and simulation.

In addition, Olivetti offers a number of financial options to enable organisations to remove their desktop assets from their balance sheets. These options include:

- Buy back of the customer's current installed base
- A service, including equipment supply, based on a constant fee
- Service fees, including equipment supply, based on payments against a planned rate of technological renewal and a customised service package.

Olivetti wishes to develop its services to include purchasing on behalf of clients. At present, the company estimates that it purchases approximately \$300m of third party products and services, and has agreements with 40 third party equipment and software product suppliers.

Olivetti's user level support services consist of:

- Help-desk services
- Computing facilities activation
- General support
- Inventory tracking.

Olivetti recognises that as organisations downsize their IT environments, so the nature of help-desk support needs to change from a reactive service, solving problems after the system has failed, to a pro-active one that assists users in avoiding system failures.

Computing facilities activation covers the various aspects of deploying technology in the user environment, including logistics services, installation and de-installation, refurbishment of units, and upgrading of equipment.

General support embodies Olivetti's multivendor support services such as equipment maintenance, software support, and network management. In this area, Olivetti traditionally aims to offer single source, single point of contact services. The company has been successful in targeting large multi-vendor maintenance contracts in the past, one example being the company's contract with Barclays Computer Operations in the UK.

Exhibit 2 provides a breakdown of Olivetti's desktop revenues for 1993.

Exhibit 2

Olivetti Desktop Revenues: 1993

Service	Revenues (\$m)	Proportion (%)
Own equipment services	436	39
Project services	228	20
Multivendor maintenance	211	19
Infrastructure and networking	193	17
Software support and training	59	5
Total	1127	100

Source: Olivetti

However, only a very minor proportion of these revenues currently accrue from desktop services outsourcing as opposed to individual service provision.

The company's desktop services outsourcing contracts are listed in Exhibit 3.

Exhibit 3

Olivetti Desktop Services Contracts

Client	Country	Contract Value (\$m)
Galileo	UK	16
Sigma	Italy	11
Nedcor	South Africa	9
Pizza Hut	UK	—

Source: Olivetti

However, Olivetti has a number of other significant contracts which provide a range of services in support of the customer's desktop environment, and which, in time, may develop into desktop services outsourcing.

Implementing Global Infrastructure for Network Support

Network support is potentially the most critical component of Olivetti's desktop

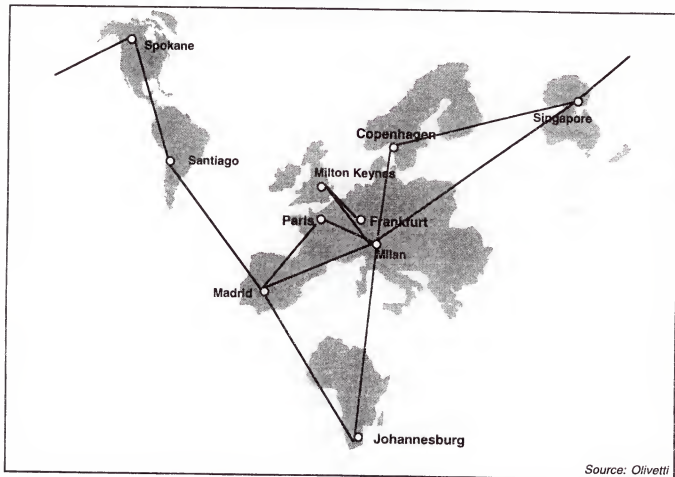
Exhibit 4

services' offering, since it holds the key to both early problem recognition/solution and cost reduction in desktop support.

Consequently, Olivetti is investing in a global network of network operations centres called Supportnet Control Centres.

Olivetti is aiming to have installed Supportnet Control Centres (SCCs) in ten locations shown in Exhibit 4 by the end of 1995.

Supportnet Control Centres



At the end of 1994, the SCCs in Milton Keynes (UK) and Ivrea (Italy) were in place; additional SCCs in Italy, Denmark, France, Spain, the Netherlands, US and South Africa were being implemented; and further SCCs were planned for Germany, Belgium, and Hong Kong/Singapore.

These SCCs can continuously monitor user LANs. Any faults detected cause an alarm and trouble ticket to be created, instigating the SCC to try remote fault resolution within two minutes of its notification. Escalation procedures for on-site service are initiated if required.

The help-desk offers software support, help lines and user training. A range of help-desk options are available ranging from dedicated help-desks devoted to an individual client to second line technical support only.

The help desk operates at two levels. The first level can be customer-specific and is supported by a call database, an inventory database, and knowledge databases. This first level support is backed up by a number of specialist, technical groups.

Reducing its own Service Delivery Costs

Olivetti recognises that the cost of delivery of desktop services will be a critical factor in determining the successful vendors in desktop services outsourcing. So far, the majority of organisations that have adopted desktop services have done so because their desktop systems had become mission critical or because of the difficulties in providing adequate geographic coverage, rather than as a cost saving measure.

However, Olivetti intends to demonstrate that it can provide real cost savings in the desktop environment.

In 1993, Olivetti implemented Project Europe. This project consisted of 14 initiatives aimed at improving Olivetti's efficiency by 40% within two years by reengineering internal service delivery processes.

Individual projects within Project Europe include:

External benchmarking of Olivetti's service delivery

- Centralisation of many support activities, including logistics and repair activities
- Redefinition of the field organisational structure
- Revision of the process for technical support.

- Restructuring of call screening and qualification procedures.

Olivetti estimates that it will invest more than \$50m in developing a leading edge network of SCCs over the period 1994-1996.

Over the same period, the company expects to further enhance its service infrastructure by:

- Making acquisitions, valued at \$70m
- Increasing staffing by 1000
- Hiring more than 200 specialists across Europe.

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- Market strategies and tactics
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- Customer satisfaction levels
- Competitive positioning
- Acquisition targets

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- Outsourcing options
- Systems plans
- Peer position

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Vendor Profile

A Publication from INPUT's Outsourcing Information Systems Programme – Europe

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Syntax Processing Aims To Become Major Player in Systems Operations

Olivetti has the potential to become one of the major players in desktop services outsourcing and has been investing in developing its desktop offerings. However, the company needs to offer a more complete range of outsourcing services, if it is to become one of the major players in IT outsourcing overall. This need is being addressed through Syntax Processing. Syntax Processing began offering systems operations services in 1990, and has been developing its ability to compete in the outsourcing market by:

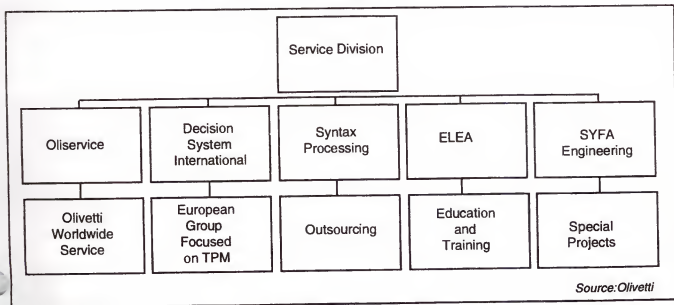
Exhibit 1

- Becoming the insourcing partner for Olivetti
- Developing an international data network
- Offering specialised services for the banking and finance sector

The Insourcing Partner for Olivetti

Exhibit 1 shows the structure of Olivetti's Services Division.

Structure of Services Division



Source: Olivetti

Syntax Processing was established in October 1989 as a spin-off of all the internal IS activities within the Olivetti Group, with the objectives of being the insourcing partner of Olivetti for information processing and telecommunications and becoming a major player in the outsourcing market.

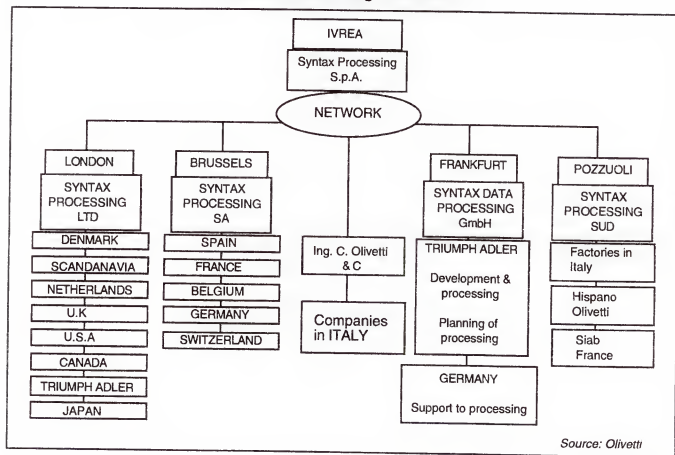
Until 1989, the Olivetti Group ran many independent data centres world-wide.

Exhibit 2

Following the creation of Syntax Processing in 1989, Olivetti's data centres were consolidated from 20 to 7 over the next three years. For example, Olivetti's data centres in France and Spain were closed; their activities being consolidated into the Brussels datacentre.

Exhibit 2 shows the resulting pattern of datacentres used to support Olivetti's internal information systems requirements.

Olivetti Insourcing Framework



The revenues of Syntax Processing are shown in Exhibit 3.

Exhibit 3

Syntax Processing Revenues

Year	Revenues (L. Billion)	Growth (%)
1990	105	-
1991	129	23
1992	148	15
1993	180	22

Source: INPUT

At present, the majority of these revenues are derived from trading with fellow subsidiaries within the Olivetti Group.

Developing an International Data Network

Syntax Processing regards the creation of its data network as critical in establishing:

- Virtual remote processing centres
- Balanced power and processing loads
- Centralised control
- Investment rationalisation.

The company has established 17 network access nodes across Italy and a further 11 across Europe.

Syntax processing has implemented an international proprietary network, linking its datacentres. The network also has links to Japan and North America, and supports Olivetti's voice and video conferencing within Italy.

Syntax has five data centres available for use by external clients in Italy, sited in:

- Ivrea
- Milan
- Turin
- Pozzuoli
- Palermo.

Further data centres within Europe are sited in Brussels and London.

A breakdown of the processing capacity within each of these locations is shown in Exhibit 4.

Exhibit 4

Syntax Processing: Processing Capacity

Location	MIPS	GB DASD
Ivrea	300	1200
Milan	160	370
Brussels	100	185
London	75	285
Pozzuoli	45	206
Turin	42	150
Palermo	27	60

Source: Olivetti

In addition, Syntax Processing has software development and maintenance activities located in Ivrea, Milan, Frankfurt, Nurnberg, Brussels and London.

So far, Syntax Processing has been most successful in the external outsourcing market within Italy. The company's outsourcing contracts in Italy are listed in Exhibit 5.

The company's European outsourcing contracts outside Italy are listed in Exhibit 6.

Exhibit 5

Outsourcing Clients in Italy

Client	Scope of Contract	Contract Award Date
Coriban	Platform operations	1990
Kuwait Petroleum Italy	Applications operations	1990
OSAI Allen Bradley	Applications operations including network management	1991
Informatica ISEFI	Applications operations including network management	1991
Sun Alliance	Platform operations and network management	1992
GFT	Applications operations including network management	1992
Valeo Ricambi Italia	Applications operations including network management	1993
Belleli	Platform operations and network management	1993
Otis Italia	Applications operations including network management	1993
COGNE	Applications operations including network management	1994
CGT (Caterpillar)	Applications operations including network management	1994

Exhibit 6

Source: Olivetti

Outsourcing Clients Elsewhere in Europe

Client	Scope of Contract	Contract Award Date
Axime	Platform operations	1992
New Holland	Platform operations	1994
Harrow Borough Council	Platform operations	1994

Source: INPUT

Offering Specialised Services for the Banking and Finance Sector

Syntax processing also has two specialist subsidiaries:

- SE.TE.SI., established in 1993, which provides specialised services to the financial services sector
- Syntax Processing Media, established in 1994, which provides data broadcasting services

SE.TE.SI. provides:

- Collection, checking, validation and storage of cheques and bills payable
- Storage of large volumes of documents on optical disk, for subsequent access via the data network
- Access to heterogeneous information providers
- Management of point of sale, including: supply of the terminal; site preparation; installation; testing; training; maintenance, support; collection and processing of daily transaction logs.

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Company Profile

A Publication from INPUT's Outsourcing Information Systems Programme – Europe

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SHL Systemhouse Services Support Transformational Outsourcing

In recent years, the involvement of outsourcing vendors in assisting organisations to re-orient their use of information technology has steadily grown. Initially, the involvement of the outsourcing vendor was essentially limited to managing existing legacy systems, thereby freeing in-house IT personnel to concentrate on the implementation of new systems and new architectures.

However, as the typical new infrastructure has changed from standalone departmental, or business unit, systems to strongly integrated client/server architectures, so the need for external assistance has grown. At present, outsourcing vendors are much more likely to become involved in the design, implementation and management of the new infrastructure than was the case two years ago.

SHL Systemhouse is one of the leading vendors in North America in assisting vendors in achieving such transitions, and has developed the phrase *transformational outsourcing* to describe the process of assisting clients in migrating their applications to client/server architecture.

The services that support this process are available either individually or in combination and include:

- Mainframe outsourcing and legacy system support
- Client/server consulting and development
- Client/server systems management

Mainframe Outsourcing and Legacy System Support

Within its worldwide Computing And Network Services (CNS) organisation, SHL Systemhouse has six major datacentres specialising in outsourcing services. The London datacentre was acquired with the take-over of AST Trans-Act in 1993. AST Trans-Act was formerly owned by the Royal Bank of Canada and offered outsourcing services primarily to the banking and finance sector.

Within Europe, there are approximately 75 staff reporting to the Computing and Network Services organisation. Examples of contracts held by this organisation in Europe are listed in Exhibit 1.

Exhibit 1

European Outsourcing Contracts: SHL Systemhouse

Client	Scope of Service	Value (\$m)
Royal Bank of Canada	Datacentre management, applications maintenance and development	22
Westpac Banking Corporation	Datacentre management and technical support	5
RAC	Datacentre and network management	5
CIBC Mortgages	Datacentre management and technical support	3
ABN Amro Bank N.V.	Datacentre and network management	1.5
European Postal Organisation	Networked systems management	

Source: INPUT

The contract with ABN Amro Bank is a typical transition outsourcing contract. SHL Systemhouse took over the ownership, operation and maintenance of existing equipment and software applications, while the bank concentrated on building the operating platform and applications for the replacement systems. The services provided by SHL Systemhouse included the provision of IBM mainframe and AS/400 based services together with management of the bank's UK wide area network.

To avoid clients becoming locked-in to paying for services on their existing mainframes, SHL Systemhouse offers a guaranteed decline in charges for mainframe use as applications are migrated onto client/server architecture.

Client/server Consulting and Development

Worldwide, SHL Systemhouse has extensive experience in client/server consulting and development. The company's Strategic Technology Units specialise in client technology, server technology, communications and systems development environments.

SHL Systemhouse has developed its own client/server development methodology called SHL Transform which is now available for use by the company's clients as well as by internal SHL personnel. SHL Transform is an object-oriented knowledge base containing SHL's experience in the methodologies and technologies of business transformation. In particular, it includes:

- Details of methodologies, practices and techniques
- An integrated workbench of project management and delivery tools
- On-line, multi-media based training
- Project references and metrics

Within Europe, SHL Systemhouse has assisted a number of organisations in defining the client/server architecture for their organisation and in developing and implementing client/server based systems.

The company's European client base includes United Nations, Baring Asset Management,

KLM, SEGA Europe, BBC, AnPost, WPP, Mercury and the RAC.

For example, SHL Systemhouse has assisted Barings Asset Management in designing and implementing a client/server architecture based around Hewlett-Packard servers and workstations. Subsequently SHL Systemhouse assisted Barings with the development of new applications to run on this infrastructure.

Worldwide, SHL Systemhouse focuses on three key sectors: postal authorities, telecommunications, and oil and gas. In Europe, the company's focus also includes the postal and telecommunications sectors, but additionally includes financial services institutions and the distribution sector. In this context, distribution covers transportation, retail and wholesale distribution.

SHL Systemhouse is a particularly strong player in the postal sector. The company was the prime contractor for the United States Postal Services' automated Comprehensive Tracking and Tracing (CTT), a project valued at \$270 million.

Within Europe, SHL Systemhouse was one of the original members of the Computer Aided Post in Europe (CAPE) project; an EU financed initiative to improve mail delivery between EU members. In addition, SHL Systemhouse has designed and developed International Mails Systems to automate the processes involved in the import and export of postal products on behalf of both the national postal administration of the Republic of Ireland and Correios de Portugal.

Client/server Systems Management

Once a client/server based infrastructure has been implemented, many organisations discover that day-to-day operation and management of the client/server, or desktop, environment is significantly more challenging

than managing the centralised mainframe environment.

To address this, SHL Systemhouse has developed a range of client/server systems management services. These range from providing specific support services to providing a complete systems management service.

The individual services offered by SHL Systemhouse include:

- Facilities assessment services, including performance, capacity and skills assessments
- Process management services
- LAN capacity and performance reviews
- Network operational assurance reviews
- Network design and specification services
- Project management services
- Installation and upgrade services
- LAN administration
- TeleCare services, providing a single point of contact and unlimited calls for application support, priced on a user by user basis
- Customer reporting services
- LAN recovery services
- Asset management services
- LAN preventative maintenance services
- Network infrastructure services, including cabling consultation, design and implementation
- Maintenance services

SHL Systemhouse's provides a complete client/server systems management service

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through its Network Operations Centres. These centres enable SHL Systemhouse to remotely monitor each workstation on a client's network, providing 24-hour cover. This monitoring enables SHL Systemhouse to identify throughput and capacity problems at an early stage and take corrective action. Problems are tracked using a trouble-ticketing system from Remedy Corporation, and user support is co-ordinated through the help-desk.

SHL Systemhouse is targeting organisations with more than 500 personal computers attached to LANs that are implementing LAN-based mission critical systems.

In addition to providing outsourced desktop services, SHL Systemhouse will supply the products and expertise to assist clients in establishing their own network operations centres. Current clients include Postel and a major European Postal Agency.

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Company Profile

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December 1994

FI Group Focuses Application Management Services

Much of the application management activity in Europe so far has taken place within systems operations contracts. However, FI Group have proved that it is possible to be successful in application management without possessing IT infrastructure management capability.

The company's recent financial results are listed in Exhibit 1. The majority of the company's revenues are now derived from application management, though the company still maintains separate subsidiaries dedicated to training and recruitment.

FI Group has averaged 21% per annum growth over the past four years. Much of this

growth has resulted from the company's focus on application management.

The company is targeting the application management market with three separate offerings, namely:

- Mainstay focused principally on application maintenance management
- Partners focused on taking over the IT systems development function
- Software Factory focused on application development management.

Exhibit 1

FI Group: Financial Results

	1991	1992	1993	1994
Revenues (\$m)	31	37	41	61
Revenue Growth (%)	29	20	12	49
Profit before tax (\$m)	1.9	1.6	1.9	3.1
Margin (%)	6.2	4.4	4.6	5.0

Source: FI Group

Mainstay Addresses Application Maintenance Management

Mainstay consists of a complete application systems support and maintenance service. The Mainstay service has grown to be a major element of FI Group's revenues and now accounts for approximately 40% of the revenues of the Group.

FI Group has offered its Mainstay service for a number of years. However, the nature of the business has evolved significantly. Two years ago, the focus of Mainstay was primarily on phasing out legacy systems, while the in-house IT department focused its energies on the development of new systems. While the majority of contracts still focus on maintaining systems soon to be replaced, current activity is rapidly moving towards an equal mix of systems being replaced to ongoing core systems.

As a result, the average length of Mainstay contracts is also changing. The length of a contract to maintain systems being phased out is typically 1-2 years. However, Mainstay contracts for the maintenance and enhancement of core systems are typically renewable three-year contracts.

Similarly, clients' motivations are also changing. Two years ago, organisations typically only outsourced the maintenance of systems that were due for replacement and were reluctant to outsource core systems.

However, organisations are now beginning to recognise that application maintenance management may have a wider role to play in resolving their resource constraints, maintaining in-house headcounts at an acceptable level, and refocusing in-house staff towards addressing the strategic role of IT within their organisations and new developments. Accordingly, organisations are

slowly becoming more confident in outsourcing the maintenance and enhancement of key business systems.

However, the majority of the Mainstay business (approximately 80%) is still based on maintaining and enhancing mainframe based systems. FI Group expects this proportion to steadily decrease and one of the company's current challenges is to develop a robust methodology for the support of systems developed within a client/server environment.

The management process behind Mainstay is critical to the service's success. Mainstay depends primarily on sound methodologies and processes rather than technological tools. A key focus in the project start-up phase is the establishment of detailed knowledge transfer plans, outlining the knowledge transfer required from each individual within the client organisation.

Many Mainstay contracts are run with mixed teams managed by FI Group. This is particularly likely where there is a relatively high level of enhancement/development work within the contract.

Since FI Group does not possess any IT infrastructure management capability, the company is dependent on contracts where the client either does not wish to outsource their IT infrastructure management or is prepared to use separate suppliers for infrastructure management and application management.

Typically, the majority of FI Group's contracts tend to come from organisations that wish to retain their own datacentres, but require stand-alone application management capability. These organisations are typically those where the computer systems have a strong customer interface, such as the financial services institutions. Examples of Mainstay contracts are shown in Exhibit 2.

Exhibit 2

Mainstay Contracts

Client	Contract length (years)	Nature of Contract
Barclays Bank	3	Maintenance of card systems, including new accounts processing and Visa fraud and debt recovery
Sainsbury	3	Personnel and payroll systems
SWALEC (South Wales Electricity)	1	Twenty one revenue systems, including monthly billing and quarterly revenue

Source: INPUT

FI Partners Taking Over the Systems Development Function

FI Group's Mainstay service is a gentle introduction to outsourcing for organisations facing resource constraints and needing to prioritise which activities are to be handled in-house. On the other hand, FI Group's Partners service offers a more fundamental approach to outsourcing for organisations that wish to outsource the complete systems development function (both maintenance and new development) but wish to retain ownership and operation of their IT infrastructure.

This approach will be typically adopted by organisations that do not regard the actual development of systems as a core skill to their business. In particular, the service is most likely to be adopted by organisations that perceive that their in-house systems development personnel lack the ability to rapidly deliver new systems using new methodologies, technologies and architectures.

Unlike Mainstay contracts which tend to be for up to three years duration, Partners

contracts tend to be much longer, typically between five and seven years duration and to involve the acquisition of the client's development personnel.

FI Group perceives the major challenge within Partners contracts as the reskilling of these personnel, both in terms of inducing a more commercial attitude towards their former employer, and in technical reskilling.

FI Group also perceives that the company needs to assist the senior IT personnel who remain with the client organisation in adjusting to their new roles. These personnel are now removed from their former day-to-day management roles, and must learn how to:

- Become more involved with their users
- Develop a strategic direction for the future application of IT to the business
- Manage vendors to achieve these objectives.

Details of FI Group's Partners contracts are listed in Exhibit 3.

FI Partner Contracts

Client	Contract value (\$m)	Contract length (years)	Nature of Contract
Co-operative Bank	32	7	Systems development, enhancement and maintenance. 128 personnel transferred.
Whitbread	19	5	Systems development, enhancement and maintenance. 100 personnel transferred.

Source: INPUT

Application maintenance can be used as a mechanism for transferring responsibility for IT to individual business units. Whitbread evaluated three options for devolving responsibility for IT to individual operating divisions, namely:

- Decentralising application and maintenance to the business units
- Making their in-house IT development personnel redundant and contracting out the work on a one-off basis
- Transferring the work and the staff to a third party as a going concern.

Software Factory Focuses on Application Development Management

Over the past two years, FI Group has also moved away from providing one-off project

services. The company now seeks to provide a more outsourcing-oriented approach to new systems development through its Software Factory concept.

The Software Factory carries out work parcels under the customer's direction, according to an agreed programme. Within this framework, in-house IT personnel are often included in teams where their business knowledge can make an important contribution.

The Software Factory concept is designed to be flexible and is intended to provide IT directors with the flexibility to change direction and priorities quickly, in addition to freeing them from day-to-day management of the internal mechanics of the development team.

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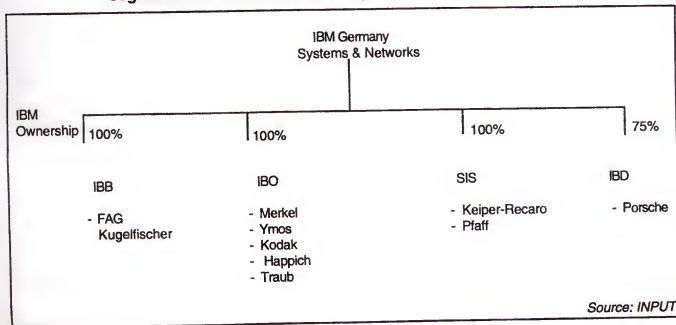
IBB—Assisting German Manufacturing Industry in Cost Reduction

In Germany, IBM has formed an outsourcing subsidiary named IBM Systeme und Netze GmbH. This subsidiary is the equivalent of Axone in France, or IBM ISL in the UK, and is responsible for all of IBM Germany's internal information services, in addition to external outsourcing contracts and network service to internal and external customers.

However, the majority of these external contracts are managed from within several subsidiaries of IBM Systeme und Netze GmbH. These subsidiaries are indicated in Exhibit 1.

Exhibit 1

Organisation Structure: IBM Systeme und Netze GmbH



Source: INPUT

At 1st March 1994, these subsidiaries managed between them a total of twelve external outsourcing contracts. These contracts accrued fiscal 1993 revenues of approximately DM47 million. However the 1994 revenues from these contracts will be a significantly higher, since all of IBO's six contracts have been awarded since August 1993 and SIS was only founded on 1st January 1994.

Each of these subsidiaries is 100% owned by IBM Systeme und Netze, with the exception of IBD, a joint venture in which Porsche has a 75% shareholding.

IBB is currently the largest of these subsidiaries, with 240 personnel. IBB, like its fellow subsidiaries, is targeting significant growth in the German outsourcing market over the next few years. IBB will continue to focus on the manufacturing sector, where the use of outsourcing will continue to grow strongly in Germany. IBB expects to develop its presence in the German manufacturing sector by:

- Developing its ability to provide business solutions for the manufacturing sector
- Offering business reengineering services to the manufacturing sector
- Expanding its contract base to non-IBM platforms.

Providing Business Solutions for the Manufacturing Sector

There is considerable ongoing demand for IT outsourcing within the German manufacturing industry as German manufacturers struggle to reduce their costs

to internationally competitive levels in the face of growing foreign competition.

Accordingly, most of IBM Systeme und Netze's current customer base are manufacturing companies. IBB's present customers are FAG Kugelfischer and several former FAG factories/manufacturing facilities which have been spun off to other buyer companies.

IBB offers a number of services specifically targeted at the manufacturing sector. These include:

- SAP outsourcing
- Technical information system outsourcing
- EDI

IBB's SAP outsourcing services include consulting, implementation and system management services for both R/2 and R/3 environments.

IBB also has the capability to assist manufacturing companies in planning, implementing and managing their technical information systems. Typically, these systems need to be linked to the SAP information system. Possible components of the technical information systems include CAD, for example Unigraphics, CAE, CAP, CAM and CAQ.

Offering Business Reengineering Services

At present, cost reduction seems to remain the principal driving force behind outsourcing in Germany.

However, business reengineering will need to be adopted by many German manufacturing

companies in order for them to make the transition to lower cost business processes. FAG Kugelfischer has undergone an extensive reengineering exercise and is now returning to profitability.

Exhibit 2 illustrates the type of reorganisation that many companies will need to undergo to achieve maximum levels of efficiency and reduce customer lead times.

Information technology has an important contribution to make to company reengineering. IBB believes that German manufacturing companies are increasingly prepared to approach reengineering by choosing suitable standard application software products and then amending their business processes to match the software selected.

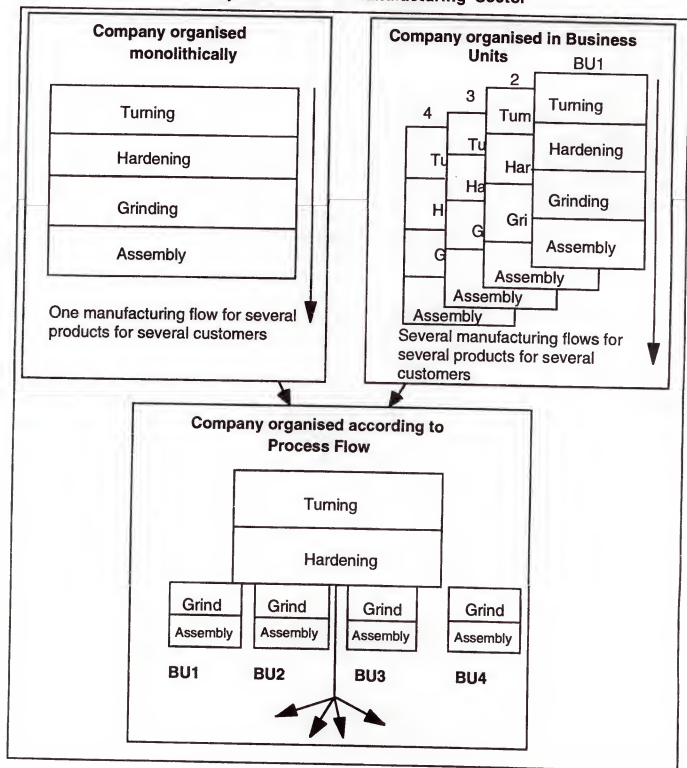
In particular, the R/3 product is being heavily promoted by SAP as a vehicle for assisting manufacturing companies in reorganising their production operations.

Expanding to non-IBM Platforms

IBB has the capabilities to conduct system and network management across mainframe, desktop and client/server environments, and is experienced in the management of proprietary architectures from Bull, SNI and Digital in addition to those from IBM. IBB's services and solutions for the manufacturing sector are independent of equipment platform and operating system and IBB expects a significant part of its growth to come from outside the traditional IBM customer base as manufacturing organisations migrate from proprietary platforms into open systems environments.

Exhibit 2

Example of BPR in Manufacturing Sector



Source: INPUT

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Vendor Profile

A Publication from INPUT's Outsourcing Information Systems Programme – Europe

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EDS France Refocuses on Co-Sourcing

EDS France is a member of EDS's Southern Europe business unit which also contains Italy, Spain, Portugal, Greece and Monaco.

EDS France was formed in 1985, since when it has grown substantially. Acquisitions have played a major part in this growth, notably the acquisition of GFI in 1991. As a result, by year-end 1994, EDS France employed approximately 3,000 personnel and had annual revenues of approximately FF2 billion.

However, this growth, and particularly, the company's acquisitions, has led to a loss of focus which EDS France is now taking steps to restore. Overall, the company is:

- Divesting its body-shopping and some of its software product activities
- Re-emphasising its co-sourcing philosophy
- Strengthening its European industry sector focus.

Divesting Non-Core Activities

EDS France has decided to target large contracts with large organisations and to focus on its traditional business continuum services led by management consultancy.

However, at the end of 1994, EDS France still had large numbers of personnel involved in body-shopping and software product development.

The company has now decided to divest itself of the bulk of these activities. Its reasons for divesting its body-shopping operations are that:

- Selling technical support services to the IT department on a short-term time and materials basis is inconsistent with EDS's desire to sell on the basis of business benefit to senior executives
- Annual revenue per head for its body-shopping activities in France is approximately FF400k compared to FF800k - FF1000k for major contracts
- EDS France wants to achieve net profitability of 8-12 %; body-shopping generates 2-4% net profitability.

Accordingly EDS France has created a separate subsidiary to hold its body-shopping activities. This subsidiary contains approximately 1000 personnel distributed across 20 locations within France and is in the process of being sold to Novalliance, headed

by Alain Mallard. The new organisation will be called GFI Informatique to take advantage of the existing brand recognition. However, it is likely, at least in the short-term, that EDS France will maintain a commercial relationship with this organisation, effectively making it EDS France's preferred supplier for additional project resources.

EDS France has also built-up over the years a portfolio of software products, consisting of 35 individual products spread across 7 product families. The personnel responsible for the ongoing development of these products have also been organised into a separate subsidiary within EDS France.

EDS France is now evaluating the relevance to its future business of each of these product families. A family of products has to meet the following conditions in order to be retained by EDS France:

- Offering the potential for worldwide, or at least European, application and not just applicable to the French market
- Based on an up-to-date technology platform, such as client/server
- Having the potential to make a significant contribution to the client's business e.g. generic products such as payroll would fail this test.

Where families of products fail to meet these criteria, EDS is seeking vendors with an interest in acquiring them. For example, on the 1st January, 1995, EDS sold its French banking products to Caisse Centrale des Banques Populaires. This unit contained 60 personnel and in 1994 achieved revenues of approximately FF40 million.

EDS will retain its Unigraphics CAD/CAM software products.

Re-emphasising Co-sourcing Philosophy

EDS France is now concentrating on strengthening its ability to deliver the various components of its co-sourcing services, covering:

- Management consulting
- Systems integration and development
- Systems management
- Process management.

In April 1994, EDS acquired the French management consultancy Eurosept. This acquisition added 150 consultants to the 20 management consultants previously employed by EDS France, considerably increasing EDS's management consultancy presence in France.

In 1994, EDS France also recruited senior personnel to strengthen its systems integration and systems management activities.

At the end of 1994, EDS had outsourcing revenues in France of approximately FF1,000 million. The company's most recent major contracts in France were with MORY-TNTE in the transport sector and Compagnie Générale Maritime (CGM).

At the end of 1993, EDS France's revenues were broken down by service type as shown in Exhibit 1.

Exhibit 1

EDS France: Revenues by Service Type

Service Type	Revenues FFm	Proportion (%)
Consulting	50	2.5
Systems development	400	19.5
Software Products	350	17
Systems integration	200	10
Systems management	1000	51
Total	2000	100

Source: EDS

The total revenues of EDS France were largely unchanged between 1993 and 1994, though the proportion accounted for by systems development may have fallen slightly while the proportion accounted for by systems management continued to grow.

With the refocusing of its activities, the pattern of revenues accrued by EDS France can be expected to change dramatically. In particular, the organisation's consulting revenues should increase substantially and the revenues from systems development and software products decrease sharply as EDS France divests itself of much of this activity.

Strengthening its European Industry Sector Focus

EDS France is divided into an operations group and a sales and marketing group. The operations group is further divided into a number of industry sector facing units, covering:

- Manufacturing industry
- Energy, also including chemicals and pharmaceuticals
- Banking, finance and insurance
- Services, distribution, transportation and media
- Government.

EDS France no longer has operations personnel by service type. All operations personnel are allocated to one of the industry units. However, technical personnel may be seconded between industry units on short-term assignments, for example up to three months, or transferred between units depending on project requirements. EDS France maintains a register on personnel and their skills to assist in allocating resources across projects and industry groups.

EDS France's management consultancy organisation, EDS Eurosept, operates outside these operational units at present. However, this organisation is also attempting to organise along industry lines.

In addition, EDS's datacentre and network management unit, TSE, operates at a pan-European level, outside the industry unit structure, as does the desktop services unit, TPD.

Examples of outsourcing clients of EDS France by sector are shown in Exhibit 2.

Exhibit 2

Outsourcing Contracts: EDS France

Industry sector	Client
Manufacturing	Chausson Black & Decker Société Alsacienne d'Aluminium Péchiney
Energy & petrochemicals	BP Total Elf Charbonnages de France La Quinoléine
Financial services	CGB Citibank
Transport	MORY-TNTE Compagnie Générale Maritime

Source: EDS

EDS also has centres of competence covering telecommunications and networks and multimedia located in France.

Overall, EDS is focusing strongly on building industry specific capabilities led by management consulting. In addition, the company is endeavouring to build these capabilities at a global or European level, as appropriate. Within Europe, the company's strategy is increasingly being developed at the European level, rather than on a country by country basis.

To further support its industry sector focus, EDS has created a number of centres of excellence. As part of its contract with Kooperativa Forbundet (KF) in Sweden, EDS

agreed to establish a retailing centre of excellence in Stockholm. Within the KF contract, EDS acquired 500 personnel with systems experience in retailing systems and, in January 1995, EDS opened a second European retailing centre of expertise, based in Strasbourg, France. This centre is based on expertise derived from both the U.S. and KF.

EDS perceives that retailing is increasingly becoming European in focus with, for example, many French retailing companies seeking to expand outside their national territory. At the same time, many European retailing organisations are looking to the U.S. for ideas on best practice and new ways of developing retail concepts. EDS has developed its own Retail Enterprise Model (REM) to assist organisations in evaluating the application of information technology to the retail sector.

EDS's *Centre REM France* in Strasbourg is intended to be European in outlook. In addition to France, the centre is expected to serve retailing organisations in Germany and Southern Europe.

Elsewhere, EDS is simultaneously strengthening its geographic coverage in Europe and building up areas of industry-specific competence.

In Italy, EDS acquired S&M Group in January 1994. The company has now consolidated its overall position in the Italian market with the acquisition of Database and its 1,000 personnel, making EDS one of the largest IT services companies in Italy behind Finsiel. EDS has also recently signed a 10-year outsourcing contract with the Italian insurance company INA, giving EDS 500 personnel with experience in applying IT to the insurance sector.

In Germany, EDS has taken a 25% shareholding in Lufthansa Systems, enhancing the company's support for the airline sector in Europe. EDS acquired 2,000 personnel with experience in the travel sector in the U.S. through its contract with Continental Airlines and views the travel sector as a market where similar IT systems are already applicable on a global basis. At the moment, Air Transport Division is one of a number of pan-European business units. The others include:

- Management Consulting
- Unigraphics CAD/CAM

- Communication Industry Group, covering the media sector
- Technical Products Division.

One of the major challenges facing EDS during the course of 1995 and 1996 is balancing the need for local operational management to meet their financial targets while encouraging the development of highly-skilled, industry-specific teams capable of operating internationally.

This Competitor Profile is issued as part of INPUT's Outsourcing Programme—Europe. If you have any questions or comments on this profile, please call your local INPUT organisation or John Willmott at

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DATABASES

- Software and Services Market Forecasts
- Software and Services Vendors
- U.S. Federal Government
 - Procurement Plans (PAR, APR)
 - Forecasts
 - Awards (FAIT)

CUSTOM PROJECTS

For Vendors—analyze:

- Market strategies and tactics
- Product/service opportunities
- Customer satisfaction levels
- Competitive positioning
- Acquisition targets

For Buyers—evaluate:

- Specific vendor capabilities
- Outsourcing options
- Systems plans
- Peer position

OTHER SERVICES

Acquisition/partnership searches

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